INDIA'S ECONOMIC RELATIONS
WITH THE FAR EASTERN AND PACIFIC COUNTRIES
IN THE PRESENT CENTURY

By the same Author:

TRENDS OF AGRICULTURE AND POPULATION IN THE GANGES VALLEY (1937)

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IN THE PRESENT CENTURY

B. N. GANGULI

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CORRIGENDA

p. 163 In Table of Imports, 14. Other articles; figures should read 69,06,569.

In Table of Exports, 10. Others; figures should read 61,31,035.

p. 168 l.9 Others, 1938-39; figures should read 48,92,000.

In Table of Imports, Cotton yarn etc. 1938-39; figures should read 64,89,000; Others, 1938-39, 39,12,000.

p. 173 Grand Total; figures should read 2,82,33,198.

p. 174 In Table of Exports 1945-46, Drugs etc.; figures should read 1,58,406. At foot of table add 'Grand Total, including Others' and amend total to read 2,20,63,263.

In Table of Exports 1947-48, 6. Instruments etc.; for 2,43,720 substitute 2,56,520.

INTRODUCTION—BACKGROUND

THIS book seeks to present a survey of India's economic relations with the Far Eastern and Pacific countries in the present century. The countries comprehended in this survey are not only India's traditional and immediate neighbours, but also countries in the peripheral region which have been playing a dominant role in the post-war economic readjustments in the Far East. Countries in the first category are Pakistan, Ceylon, Burma, Malaya, Indonesia, Indo-China, and Thailand. In the context of this work the Far East has been merely demarcated from the Middle and Near East. The geographical looseness of this expression may be overlooked so long as the limits of the area are clearly understood. As a matter of fact, the countries just mentioned belong to what geographers call South Asia and South-East Asia. We have also included in our survey Japan, China and the Philippines which are usually comprehended in the region described as the Far East.

Our survey also covers Australia and New Zealand which geographically belong to Oceania, but which, from the point of view of both foreign economic relations and strategy, have proved to be part and parcel of both the Pacific region and South-East Asia. Finally, the Pacific countries, the economies of which have been impinging powerfully on those of practically all the countries across the Pacific Ocean and which we have taken into account, are Canada and the United States of America. These two countries owing to a peculiar combination of circumstances are now as much part of the Far East as they are part of the Western Hemisphere. The compelling fact of the situation in this part of the world seems to be that countries which are geographically contiguous, which at one time had close cultural and economic contacts with one another at many points, and which in the era of imperialism and expansion of Western capitalistic enterprise became isolated from one another, have now been thrown together in a more intimate and vital kind of way.

In the modern world, some of the most significant international economic relations have evolved as the result of what

has been figuratively called shrinking of space. When rival imperialisms dominated the economic destiny of South and South-East Asia, space shrank to such an extent that this region became a part of the world which was virtually marginal to Europe. By the same logic of events during a period of imperialism in retreat, countries of this region are discovering that distance in the figurative, and not merely in the physical, sense is shrinking fast and that it is, therefore, so necessary for them to co-ordinate and readjust their external economic relations. At the same time, countries in the peripheral zone—Japan, the United States with the Philippines, Australia, and New Zealand—have come nearer than ever before. Powerful re-agents of the historical process in the Far East have been acting in such a way that centripetal economic forces have been drawing together not only these peripheral countries, but also countries which form the core of the Far Eastern region. Mere space relations have become static, and, therefore, irrelevant in the new context : the frontiers of natural regions recognised by geographers have become blurred and indistinguishable in the rapidly developing dynamic situation on which the hopes and fears of teeming millions in Asia are centred today.

There are certain inescapable geographical facts which must serve as the background of much that is significant in India's economic relations with these countries in the past as well as in the immediate future. In the first place, it is necessary to stress the difference between the countries which form the core and those which are in the periphery. Of more than 1200 million people who live in Asia three-quarters are in India, Pakistan, China, and Japan. Indeed, the monsoon lands of Asia alone account for nearly half of mankind. They form the core of the area that is included within the scope of our survey in the sense that it is the real Asian Asia which is characterised by a broad similarity of environment and in which the rhythm of the monsoon determines the work and livelihood of half the human race. On the other hand, the peripheral countries—the U.S.A., Canada, Australia and New Zealand—are white men's settlements in the temperate belt in which exploitation of natural resources has been organised on the basis of intensive application of capital and technique, rather than superabundant labour. In the second place, within the monsoon region itself the sharply uneven

pressure of the population upon natural resources is a geographical factor of great significance. South-East Asia shows much of the quality of the mainland area of Asia, and the old names 'Farther India' and the 'Indo-Chinese Peninsula' merely underline a unity not only in terms of cultural patterns and ways of community life in the villages, but also in terms of fundamental geographical identity.

Unlike India, Pakistan, and China, South-East Asia is a relatively underpopulated monsoon region. In the wake of commercialisation of economic activity and the development of plantation agriculture, mining, and the various ancillary and tertiary occupations under the leadership of the West, South-East Asia has, therefore, attracted from the crowded monsoon lands cheap and enterprising labour and venturesome traders, financiers, commission agents, distributors, etc. who have served as middlemen between the foreign capitalist entrepreneurs and the local inhabitants. The presence of an unassimilated immigrant minority which in a colonial regime has acquired vast economic influence by way of providing either indispensable labour in plantations or mines, or indispensable services in the field of trade, finance, and distribution and has also served as an intermediary between the governing nation and the governed, has created complex economic and psychological problems of a plural society which the distintegration of colonialism has now brought more prominently to the surface. Finally, it is the pivotal strategic position of India as the base of operations of the expansion of the British empire in South and South-East Asia, which supplied the momentum to the centrifugal economic pull that eventually brought the Indian economy into intimate relationship with the economies of this region under a common economic hegemony established by Western capitalistic enterprise.

Western economic infiltration into South-East Asia in a systematic way dates back to the second half of the nineteenth century. Much earlier Western powers had no doubt established themselves in the peripheral fringes of South-East Asia mainly for political and strategic reasons connected with their political conflicts and frustrations in Europe. The kind of economic imperialism which had accompanied political penetration in this region could be best described as mercantile imperialism. It was in the second half of the last century that mercantile imperialism changed its

character into colonial economic development as the result of the opening of the Suez Canal in 1869 and the increasing demand for tropical products. The vast underpeopled areas of monsoon Asia were hitherto not so important as markets as India or China. Western traders were merely interested as entrepreneurs in the trade in native produce—sugar, coffee, tobacco, jungle products, and spices—the production of which was left to the resources of local enterprise. But towards the close of the nineteenth century the increasing demand for vegetable oils and later rubber, hemp, coffee and sugar opened up the vast new potentialities of this region as a centre of tropical production.

In this relatively underpeopled region, there was scope for capital-intensive plantation agriculture, which could be organised on the basis of an ample supply of cheap labour from over-crowded China and India. Mineral wealth, particularly tin and oil, also attracted attention. After the opening of the Suez Canal, the European demand for rice showed unsuspected possibilities of increase, and this factor, combined with the ease of importing rice-milling machinery, opened up the vast potentialities of rice production in the Irrawaddy and Mekong deltas, which eventually became rice granaries of Asia. Thus vast territories, which had so far remained completely neglected, attracted Western capital, technique and organisation like a magnet. And Western economic influence, aided by a pushful immigrant minority of Indians and Chinese, spread from the coastal settlements to the underdeveloped hinterland. This process of economic infiltration depended on direct Western control of the territories concerned, for if Western enterprise had to go beyond the stage of trading posts and 'concessions', it had to undertake vast investments in public utilities and transportation and seek safety of investment in complete political control of these territories. Thus it was not an accident of history that British suzerainty was established in Malaya in 1874-95, that France occupied Annam and Tonkin in 1884 and penetrated into Laos in 1893, and that the Dutch established a firm hold on the Outer Provinces between 1870 and 1900.

The course of economic development briefly outlined above explains one interesting feature of the external economic relations of the various countries of South and South-East Asia, viz., that they were articulated by the pull of rival imperialist regimes in

this part of the world. Each had its own characteristics and left its impress on the political economy of colonialism. Thus colonial practice showed divergent trends. The British *laissez-faire* policy in Burma and Malaya, which released the forces of competitive commercialism and even competitive investment, has to be contrasted with the Dutch system of compulsory agricultural production under the old 'culture system', which yielded place to the British *laissez-faire* colonial practice, when the Dutch discovered that in a colonial system of the type which was developing in South and South-East Asia there was no conflict between trade and production so long as there was continuous economic expansion. The French followed the practice of preserving the colonial market as a safe preserve. This led to the policy of 'economic assimilation' which proved a tragic failure. But in spite of these differences in colonial practice as determined by the different economic ideologies and requirements of the colonial powers, colonial economic development in the whole of this region assumed a set pattern and had similar consequences for the people of the colonial areas.

In the first place, the colonial economies of this region are export-oriented economies. Primary production here has been largely determined by foreign demand and hence national income fluctuates with fluctuations of demand in distant export markets. Since many of these economies specialise in a narrow range of exports, their economic position has been very vulnerable ; in fact, it is even precarious, because the commodities exported by them are such that their prices are subject to wide and simultaneous fluctuations.

Secondly, the colonial economies of South and South-East Asia are predominantly competitive and not complementary economies. This character cannot be entirely set down to the colonial character of these economies : the broad similarity of natural environment makes for similarity in specialities of tropical production. But if intra-regional trade had developed to a much larger extent on the basis of more rational economic development, these economies would have shown greater diversification and complementarity of production. Even in the field of tropical production there can be a wide range of diversity of production and of specialisation based on such diversity. Advanced primary countries in the temperate belt have developed mutually

advantageous diversity of production. In tropical Asia too there is greater scope for intra-regional diversification of production under favourable conditions.

Thirdly, we should note the comparative insignificance of intra-regional trade, which has been the cause as well as the effect of lack of complementarity and intra-regional diversification of production except in a narrow field. Before the war South-East Asia was dependent for about 80 per cent of exports and 70 per cent of imports upon trade with countries outside South-East Asia. Although foreign trade was strongly oriented towards the metropolitan countries in distant Europe, the Pacific region, by reason of its close proximity, shared an appreciable proportion of the total trade of South-East Asia. About 36 per cent of the export of South-East Asia had its destination in countries outside the Pacific region, and about 42 per cent of its imports was derived from outside the Pacific region. Thus the trade of South-East Asia with the Pacific region amounted to 64 per cent of its exports and 58 of its imports. The 'peripheral' countries—Canada, the U.S.A., Japan and, to a smaller extent, Australia—had, therefore, acquired an important share of the trade of South-East Asia. So far as these trends are concerned, India's foreign trade has also shared the character of South-East Asia's trade. As we shall see, India's trade with the 'peripheral' countries of the Pacific region has assumed increasing importance during the present century. But we must remember in this connection that although the pull of the metropolitan areas was calculated to lessen the volume and importance of South-East Asia's intra-regional trade, yet even in the heyday of colonialism there was an appreciable volume of intra-regional trade in many tropical products, particularly rice and fish, the total value of which was estimated at $400 million before the war. Since India with her diversity of natural resources and a certain degree of industrial development had a fairly diversified structure of export trade, her foreign trade with countries of South-East Asia during the pre-war decade was, as the following chapters will show, not insignificant.

The foreign trade of the underdeveloped colonial countries of the Far East has passed through several phases, a description of which will serve as a necessary background to the chapters that follow.

There was, first, a phase in which the economies of the Far

Eastern countries were activated by the colonial type of economic development based upon foreign investment and foreign capitalistic enterprise. Capital investment was not necessarily confined to the metropolitan countries : it cut across imperial boundaries. Entrepreneurial investment, as distinguished from rentier investment, was more important, and a high proportion of such investment flowed into Siam, the Dutch East Indies, British Malaya, and Borneo, irrespective of the artificial boundaries imposed by the forward movement of imperialism. Thus in Siam the total entrepreneurial investments in 1938 were gold $90,000,000 of which 70 to 80 per cent was British and Australian investment, the rest being shared by Danish, American, Swiss, Japanese and French investors. In the Dutch East Indies, while the holdings of Dutch government bonds were £ 4 million, the British share of entrepreneurial investment was as much as £ 40 million. Similarly, British holdings in the Philippines were £ 10 million. The only exception was French Indo-China, in which the French pursued an exclusive policy and foreign entrepreneurial investment was much smaller.

As the countries of the Far East became 'mature' borrowers, an export surplus had to develop for effecting the transfer of debt service and property incomes to the creditor countries of Asia and Europe (the remittances of Chinese entrepreneurs and immigrant labourers were an important debit item in the current balances of payments). At first there was a stage of bilateral balancing of accounts when investments were largely confined to the metropolitan countries concerned ; and interest, amortization payments, entrepreneurial income, etc. had to be transferred by means of a direct export surplus with the creditor country. But eventually a wider basis of trade was needed. The static, low-level economies with their low purchasing power could not absorb large quantities of high-income manufactured products which Western countries could sell. Nor could the mother countries offer an indefinitely larger market for colonial products, the output of which was expanding rapidly. Thus gradually the trade and payment arrangements of the Far Eastern countries were assimilated into the framework of the world-wide system of multilateral trade and multilateral settlement of international payments. The mother countries thus became relatively more important as suppliers to British Malaya,

French Indo-China and the Netherlands Indies than as buyers of their goods. On the other hand, other industrial countries, like the U.S.A., Canada, and Germany, were more important as buyers of tropical products than as sellers of their goods in the tropical countries of Asia. Thus the position in 1928 was that the total value of the U.S.A's imports from Malaya, for example, was $ 207 million, whereas the total value of the U.S.A's exports to Malaya was merely $ 16 million. The whole of South-East Asia had an export surplus in relation to the U.S.A. of $ 290 million in 1928 and of $ 110 million in 1938.

The U. S. investments in this region were no more than $ 400 million. Hence, the bulk of this large export surplus was used for the transfer of payments due to European investors, particularly in the United Kingdom and the Netherlands, who had invested their capital in the Far Eastern countries. The balancing of international payments was achieved by a multilateral process roughly as follows : South-East Asia had an export surplus in relation to the U.S.A. and Europe ; the U.S.A. and Europe had an export surplus in relation to the U. K. and the Netherlands ; and the U. K. and the Netherlands had an export surplus in relation to South-East Asia, which took the form of capital exports.

The multilateral trading system activated the economies of South and South-East Asia through the stimulus of better prices for tropical products (owing to their access to world-wide markets) and the expanding output of tropical products. This would have benefited the common man in South-East Asia, but for economic exploitation and callous disregard for the welfare of the masses and but for the blind forces of demand and supply which conspired to reduce the prices of tropical products to unremunerative levels and which, according to H. D. Henderson, are the real 'exploiting agencies' in colonial Asia. There is no doubt, however, that South Asia's close link with the network of multilateral trade benefited the industrial countries of the West. Industrial countries without colonies had equal access to tropical raw materials. Investors of metropolitan countries received payments (in respect of interest, amortization, current entrepreneurial income, etc.) from the colonies in the form of South and North American products which were better adapted to the requirements of a rising European standard of living.

During this expansionist phase of colonial economic development, India's trade with Far Eastern and Pacific countries expanded in many directions, although, as our analysis will show, the upward movement was punctuated with disturbances caused by the first World War, the post-war boom and the depression that followed—disturbances which were, however, not so basic or violent as those which characterised the depression of the 'thirties.

The depression of the 'thirties marked a distinct phase in the orientation of the trade of Far Eastern countries, involving as it did severe stresses and strains to which the precarious economic equilibrium of these countries was exposed. Collapse of commodity prices, particularly prices of tin and rubber and rice, which followed overexpansion of primary production earlier, shook the structure of the colonial economies of Asia to its foundations. Real incomes of plantation labourers and commercial farmers declined to very low levels. The output for a time was maintained ; in the case of peasant farmers it actually increased as they struggled to maintain their low level of real incomes in the face of falling prices, so that they were caught in a vicious circle. The fact that colonial economies had to transfer large funds abroad periodically by way of fixed obligations was responsible for the worsening of the terms of trade of Far Eastern countries through the pressure of unilateral transfer of funds on their export trade. The balances of payments of many countries (such as India) were precariously maintained by depletion of reserves including gold. The effects of the depression were no less disastrous for the metropolitan creditor countries. There was large-scale default on debt service payments. For example, in the case of the Netherlands Indies, the transferred yield of direct investments was only about 0.5 per cent of the capital invested. The metropolitan countries made a desperate attempt to achieve bilateral balancing of trade with their colonial territories. Thus through the widespread system of tariff preferences and quotas, trade was diverted to empire channels. The object was not so much to ensure debt service payments as to retain the colonial market in a world of shrinking export markets. In fact, these countries were on the horns of a dilemma. Had they wanted normal transfer of the yield of direct investments from the colonies, the colonies had to generate

an export surplus by reducing imports to the minimum. This would have hit the already depressed export industries of the metropolitan countries. On the other hand, if colonial markets had to be retained at all costs and imports of the colonies had to be sustained, there was no possibility of the colonies having an export surplus with which to finance debt service payments. Eventually, commercial considerations outweighed considerations of yield of investment. Hence, the imports of the countries of South-East Asia were maintained at a higher level than if default on debt service payments had not occurred. This aspect of the orientation of the foreign trade of these countries during the depression becomes important when we try to analyse their trends of trade during this period.

A principal feature of the depression was the disorganisation of the system of multilateral trade and transfer of payments which had so far maintained an equilibrium between the colonial economies and the rest of the world. The access of the colonial economies to world-wide markets was severely restricted during the depression. Their trade was progressively diverted to empire channels by means of tariff preference and colonial quotas, which reduced trade with countries outside the empires to the minimum. The defence mechanism of quotas and preferences had disastrous consequences in many ways. Freedom of access to tropical raw materials for countries outside the preferential trade blocs was seriously curtailed. So long as the multilateral trading system worked, there was trade rivalry in the sense of competition, but except in the case of French Indo-China, exclusiveness in the field of trade was unnecessary. All nations had equal access to the sources of tropical raw materials. Service of debt and amortization were arranged quite smoothly. Colonial investment, by and large, had a cosmopolitan character. The sterling link, the dollar link or the franc link did not have any bearing on either the safety of colonial investment or sharing of trading opportunities in the Far Eastern countries. But as the depression ran its course, access to trading opportunities became difficult, trade was increasingly diverted to particular currency blocs and security of investment in terms not only of yield, but also of trading opportunities, was seriously threatened. Thus in the colonial countries of Asia one witnessed the spectacle of Western

commercial enterprise, operating within rival political units, fostering cut-throat competition between adjacent territories under the stress of the trade depression, projecting European rivalries into Asia, and completing the process of disintegration of Asian communities.

During the latter phase of the depression and towards the end of the inter-war period, attempts were made in a feeble and uncertain manner to restore the economic equilibrium of the colonial economies. The rival commercial interests of the Western powers sought grudging co-operation among the major producers, notably of rubber and tin, which took the form of commodity restriction schemes. This was an attempt at cartellisation of primary production. In the name of 'balanced marketing conditions' raw material cartels operating in Asia exploited the consumers of raw materials without offering plantation workers adequate compensatory benefits. Fortunately, the Japanese trade expansion in the 'thirties (of which an account is given in this work, particularly in the context of India's trade relations with Japan) flooded the markets of Asia with cheap goods in spite of colonial quotas and preferences, and provided some relief to the masses of the population in a period of unemployment and falling real incomes. This particular role of the expansion of Japan's export trade has never been adequately recognised. One of the contradictions of decaying colonialism was that while international co-operation was sought in the field of rubber or tin production, an opposite restrictive policy was pursued in the field of trade, particularly so far as the anti-Japanese tariffs and quotas were concerned.

Another contradiction was fostering the trend towards industrialisation which, having started in the depression, was accelerated by a peculiar combination of circumstances, apart from the logic of its own inherent momentum. Industrialisation as a remedy for the evils of an ill-balanced agricultural or mining economy became, paradoxically enough, an objective of colonial economic development and was backed by nationalist sentiment which reached various heights of fervour in countries of Asia during the 'thirties. It was the Dutch who took the lead in industrialisation by establishing a number of factories producing cheap consumer goods in Java. Attempts were also made to diversify agriculture in order to ensure to the masses of the population a

subsistence diet and reduce their utter dependence on cash crops or plantation labour. Concentration of workers in regions of plantation agriculture and mining and in centres of other activities associated with an export-oriented economy was recognised as an evil, and efforts were made to create employment and bring about a dispersal of population by establishing nuclei of self-sufficient, pioneer agricultural settlements in thinly peopled areas. The Dutch also took a lead in these developments. But such economic planning meant a reversal, to some extent, of the trend of colonial economic development.

It is interesting to note that, paradoxically enough, the Japanese economic penetration and export drive in the Far Eastern countries assisted the incipient process of industrialisation in the Far East. It is necessary to explain this paradox. Initially, the metropolitan powers had reacted to Japanese competition by trying to preserve the colonial markets through high tariffs and quotas. But high tariffs and quotas stimulated the manufacture in colonies themselves of goods in the protected categories. This consequence was welcomed, because local manufacture was the only means of counteracting Japanese attempts to establish branch plants in South-East Asia for the purpose of evading tariff restrictions. In so far as the Japanese succeeded in their attempts they also contributed to the progress of industrialisation. Thus before the Second World War power resources had expanded, new mechanised industrial plants had been established, and old native crafts had been revived. In some areas, the character of the import trade had been noticeably affected, causing concern to overseas manufacturers.

It was not an accident of history that during the 'thirties considerable industrial development was also witnessed in India. There is no doubt that broadly similar forces were also determining the character and tempo of industrialisation in India. Rising levels of revenue tariff to meet budget deficits, flooding of the Indian market with cheap Japanese goods, and the rising tide of nationalism were the main factors of India's industrial development during this period. The trend of India's trade with Far Eastern and Pacific countries reflects clearly the effects of this phase of industrialisation, although it was limited to a very narrow sector of the Indian economy.

The process of 'decolonisation' which had thus started in Asia in the 'thirties was accelerated after the outbreak of the Second World War when South-East Asia was isolated by the course of the war in Europe. After the collapse of France the rigid ties which bound French Indo-China with the mother country suddenly snapped. Japan took advantage of the situation and demanded and received assurances that in the future the trade of Indo-China would be conducted in harmony with the interests of Japan. Very large reductions were made in duties on Japanese goods, and shipments of rice to Japan increased considerably. Similarly, after the conquest of Holland by Nazi Germany in May, 1940, the Netherlands East Indies sought trade alignment with the United States of America. The Foreign Exchange Institute, which operated exchange control in the Netherlands East Indies, laid down the requirement that wherever possible payments for exports should be made in U.S. dollars.

The Japanese interregnum during the period of the Second World War completed the process of disintegration of the old colonial system in South-East Asia. The Japanese had clear long-range plans of establishing a colonial regime in this region. But their brand of colonialism—the so-called 'co-prosperity sphere'—was based on a unified concept of the whole of this region, and the Japanese proceeded on the assumptions that Greater East Asia could be built up as a closed supply base for Japanese industry and that it was possible to achieve greater co-ordination and diversification of production in this region, as contrasted with the wasteful system of production organised under competing colonial regimes indulging in cut-throat competition.

During the Japanese occupation the Bank for the Development of the Southern Areas was started with a capital of 100 million yen under the auspices of the Bank of Japan for putting through Japan's novel plan of colonial development, otherwise described as the 'New Order' in Asia. Under this plan, Java was to concentrate on sugar production, the Philippines were to switch over from sugar production to cotton-growing, Indo-China was to specialise in jute production, Borneo was to concentrate on mineral production and specially oils, and all countries were to be self-sufficient in rice. But shortage of shipping tonnage was the principal bottleneck in the task of achieving economic co-ordination and integration over the vast insular and peninsular areas

of South-East Asia. All these ambitious Japanese objectives of economic planning, therefore, proved a dismal failure.

All the same, South-East Asia had a foretaste of an economic regime which was, in any case, very different from the older type of colonial economic order. The old order had disintegrated under the impact of Japanese occupation and wartime destruction. But since the Japanese failed to create a substitute regime, in the chaos and confusion of the war the colonial economies relapsed into a stage of economic self-sufficiency in compact village communities to which people in the vast hinterlands of Asia had been accustomed for ages. This meant a return to indigenous culture which had disintegrated under the impact of Western economic imperialism and the whole range of Western influences associated with it.

National awakening in countries of South-East Asia supported, and was also reinforced by, this trend. At the same time, the rudiments of industrial skill which had been acquired earlier were turned to good account during the period of economic isolationism in wartime. It must be recognised that the Japanese occupation, however bad its consequences might have been otherwise, was a unifying influence in Asia which released forces of social change that were fundamentally revolutionary in character. The withdrawal of the Japanese from the South-East Asian scene merely brought to the surface the new revolutionary urges. First, there was the anti-western, anti-imperialist and the anti-colonial urge, which naturally took a political colouring. The second urge, no less strong, was to redress a situation in which the alien Asian immigrant, in alliance with the Western capitalist entrepreneur, was an instrument for the drain of the country's wealth overseas and maintained a standard of living which contrasted with that of the local inhabitants.

Any re-orientation of India's economic relations with countries of South-East Asia (and, for the matter of that, of the economic relations of Western countries in general) must be based on due recognition of these basic urges. There is no doubt that the economic survival of this region after the war has depended, and will continue to depend, upon some kind of contact with the capital and markets of the West. The question is whether such contact should be on the lines of old colonial development. The former metropolitan powers do not seem to offer the same answers

to this question. After the joint American and British military reoccupation of the countries of South-East Asia, there was political withdrawal of the Western powers from Burma, Indonesia, and the Philippines. The French, however, clung tenaciously to French Indo-China and the complications of a plural society in Malaya are supposed to make it necessary for the British to hold Malaya together. The proximity of the ideological frontier of China has also complicated the situation.

On the whole, politics apart, powerful economic factors, particularly the exigencies of relief and rehabilitation and of financial stability, have combined to restore the pre-war structure of production in most parts of South-East Asia. Production of tin, rubber, oils, and many other tropical products has been restored to high levels, although production of rice has lagged behind. Rising productivity in South-East Asia has been reflected in the rising trends of trade with India, as the following chapters will show. This region has even experienced a major boom and has now been passing through a phase of depression of commodity prices.

STATISTICAL PERSPECTIVE

AS a prelude to the country survey presented in the following chapters, an attempt will be made in this chapter to present the trend of India's trade with the Far Eastern and Pacific countries in the wider setting of her trade with other regions as well, which accounts for a considerable proportion of her total foreign trade. This is necessary for the sake of proper perspective which should not be lost sight of while the country survey holds the reader's attention. The change in the regional direction of India's foreign trade which has occurred in the post-war period, as compared with the pre-war normal year, 1936-37, selected as the basis of comparison in the statistical tables on page 18, is an important component element of this wider perspective and brings out into sharp relief the effects of the structural changes in the world economy caused by the Second World War and, in the particular case of India, also the effects of the structural change in the Indian economy as the result of the Partition.

During the post-war period one witnessed a significant change in the composition of India's foreign trade. Before the Second World War nearly 40 per cent of India's exports had been going to what subsequently became "enemy" or "enemy-occupied" countries. Nearly 75 per cent of India's exports of raw cotton, between 60 and 70 per cent of the exports of iron and steel, metallic ores and coal, and nearly 50 per cent of the exports of oilseeds, raw jute, cotton manufactures, tobacco and vegetable oils used to be absorbed by these countries. The disappearance of these markets during the war created difficult problems of either diversion or absorption of this exportable surplus. The Grow More Food Campaign provided the desired opportunity for diverting the acreage under cotton and raw jute, while a growing domestic market and the needs of the war economy absorbed the pre-existing surpluses of oilseeds, hides and skins, pig iron and other minerals hitherto exported. The Partition of the country in 1947, which resulted in the transfer of large cotton-growing and jute-growing areas as well as considerable food surplus sectors of the economy to Pakistan, made it necessary for India to supplement domestic production of

food and raw materials by imports. This meant stepping up exports of manufactures as a means to procuring food and raw materials as well as capital goods needed for industrial development. Thus the war, the Partition and developmental needs all combined to bring about a fundamental change in the composition of India's exports and imports. Consequently in 1951-52 exports of manufactured goods formed 56 per cent of the total exports of India, compared with only 30 per cent before World War II. The percentage share of imports of food in the total imports has increased from 14.1 in pre-war years to 26.9 in 1951-52. The percentage share of imports of raw materials has increased from 22.7 to 36.50, and the percentage share of imports of manufactured products has declined from 61.6 to 35.8 during the same period. These are undoubtedly striking trends which have involved significant changes in the direction of India's foreign trade. Notwithstanding the structural disequilibrium of the world economy after the war, which created world-wide shortages of essential commodities and hence "sellers' markets" everywhere, India has fortunately been able to tide over a difficult period of readjustment of her trade relations. India was able to retain part of the additional market that she had gained in war time : but after the Partition it was clearly necessary for her to look for new items of exports, particularly of manufactured products. In these circumstances there was bound to be a change in the destinational pattern of India's exports and imports, as compared with the pre-war pattern.

The tables on page 18 would be found instructive in this context. They present a synoptic view of the relative importance of India's trade with the Far Eastern and Pacific region in the post-war period, as compared with pre-war (1936-37 being selected as a reasonably normal year).

It is clear from the statistics that India's trade with the Far Eastern and Pacific region has gained in relative importance during the post-war years. The share of this region in India's imports has increased from about 30 per cent before the war to about 42 per cent on the average during the period 1947-48 to April-September, 1950. At the same time there has been a decline in the share of the U.K. by an average of 12 per cent and in the share of Europe by an average of 8 per cent, making up a total decline in the share of these two regions in India's imports of

Percentage Shares of India's Imports and Exports

	IMPORTS					EXPORTS				
					April-Sept.					April-Sept.
I. Far Eastern & Pacific Countries	1936-37	1947-48	1948-49	1949-50	1950	1936-37	1947-48	1948-49	1949-50	1950
Pakistan ...	..	.30	4.39	2.22	1.21	..	.59	10.80	3.22	3.89
Ceylon ...	1.40	.60	.51	.49	.32	3.80	2.90	2.90	3.48	3.31
Burma ...	..	3.30	4.70	2.29	2.81	..	3.14	2.40	3.02	2.58
Malaya ...	3.10	1.50	1.80	2.43	3.04	2.20	1.09	1.23	3.71	4.73
Indonesia ...	0.80	.09	.05	.37	.51	.50	.03	.35	.03	.47
Thailand ...	0.20	.40	1.05	1.86	.53	.30	.02	.55	.86	.82
Indo-China ...	0.30	.01	.18	0	0	.40	.02	.41	.43	.17
Philippines ...	..	.18	.12	.12	.07	..	.03	.46	.29	.18
China (excluding Formosa) ...	1.10	.51	.22	.09	.08	.60	3.38	1.33	.50	.59
Hongkong ...	0.40	.80	.51	.47	.20	.30	1.00	.73	2.90	1.31
Japan ...	17.06	.35	1.13	3.82	1.43	15.00	0.84	1.11	1.19	.62
Australia ...	0.90	2.90	5.20	6.06	6.51	1.60	5.90	4.83	5.44	6.07
New Zealand ...	0.10	.07	.17	.25	.22	0.20	0.91	.65	.66	.59
U.S.A. ...	6.50	30.40	20.08	15.69	23.11	9.50	19.58	17.05	16.69	20.35
Canada ...	0.60	2.30	1.78	2.15	2.46	1.80	2.83	1.95	2.27	2.56
Total ...	32.40	43.71	41.89	38.31	42.50	36.20	42.26	46.75	44.69	48.24
II. United Kingdom ...	38.00	28.90	27.80	27.70	21.50	32.20	26.40	23.50	24.40	23.30
III. Europe										
OEEC countries ...	20.00	7.84	10.42	9.19	10.27	30.00	10.40	8.96	10.10	7.87
Eastern Europe		0.70	1.30	3.20	6.90		2.00	2.00	1.40	.04
Total ...	20.00	8.54	11.72	12.39	17.17	30.00	12.40	10.96	11.50	7.91
Grand Total ...	90.4	81.15	81.41	78.40	81.17	98.40	81.06	81.21	80.59	79.45

about 20 per cent. This diversion of imports to the extent of about 20 per cent is accounted for by an increase of 10 per cent in the share of the Far Eastern and Pacific countries. The balance is explained by an increase of imports from other regions, such as South America, the Middle and Near East and Africa from which India has imported food and raw materials like wheat, petroleum and petroleum products and raw cotton. It is interesting to note that the share of the Far Eastern and Pacific region in India's exports also shows an increase from 36 per cent before the war to an average of 46 per cent during the period 1947-48 to April-September, 1950, i.e., an increase of 10 per cent. On the other hand, the U.K.'s share in India's exports shows a decline from 32 per cent to an average of 24 per cent, i.e., by 8 per cent, and Europe's share shows a decline from 30 per cent to an average of 11 per cent, i.e., by as much as 19 per cent. The total decrease of 27 per cent in the share of these two regions in India's export trade has thus been offset by the increase of 10 per cent in the share of the Far Eastern and Pacific region, which has materially assisted the process of readjustment of India's trade relations required in the post-war period. The necessary diversion of exports to regions other than the U.K., Europe and the Far Eastern and Pacific countries has been of the order of 17 per cent (as compared with 10 per cent in the case of imports). As a matter of fact, the Middle and Near East, East and North Africa and South America have now become significant markets for India's staple exports including manufactures.

While we notice the growing significance of the Far Eastern and Pacific countries for India's foreign trade, we must not lose sight of the fact that there are divergent trends (1) in the case of India's trade with South-East Asia as a whole, as compared with her trade with the U.S.A., Canada, and Australia and (2) in the case of individual countries within the South-East Asian group of countries.

In 1938-39 countries of South-East Asia (Burma, Malaya, Singapore, Thailand, Indonesia, Indo-China, the Philippines and British Borneo) accounted for about 9 per cent of India's total exports. The corresponding figure after the war was 6 per cent in 1946-47 and 1947-48, 5 per cent in 1948-49, 8 per cent in 1949-50, 12 per cent in 1950-51 (a peak year), 7 per cent in 1951-52 and 10 per cent in 1952-53 (April to August). This clear rising trend is

important, because it underlines the fact of the widening of India's export market in these countries in recent years, of which a detailed account has been given in the following chapters. The following table shows the change in the relative importance of major commodities exported by India to these countries :

PERCENTAGE SHARE OF MAJOR COMMODITIES EXPORTED TO SOUTH-EAST ASIA

		1938-39	1947-48	1950-51	1951-52
Cotton textiles	...	28	17	65	18
Jute manufactures	...	20	20	10	35
Coal	...	4	6	1	2
Vegetable oils (non-essential)	...	3	8	6	7
Total	...	55	41	82	62

It is clear that the major staples of export are jute manufactures and cotton textiles. With the increase in agricultural production and in the expansion of international trade in agricultural products, there is bound to be a large demand for jute goods in South-East Asia, as evidenced recently during the boom of 1951-52 when jute manufactures formed as much as 35 per cent of India's total exports. The high prices of American textiles and the absence of Japanese competition have combined to bring about the much-needed extension of India's export market in cotton textiles into this region. The peak in exports was reached in 1950-51, and how to stabilise the recent gain is one of India's current problems of export trade. This region has also provided a growing market for miscellaneous manufactured goods, such as coir yarn, cordage and rope, hardware and cutlery, provisions and oilman's stores, rubber manufactures, haberdashery and millinery, electrical goods, sewing machines and tobacco manufactures which are being exported to specific countries rather than to the region as a whole.

There has been a sharp decline in the share of this region in India's imports. While this share was 20 per cent in 1938-39, it has varied between 5 per cent and 8 per cent in post-war years. Rice, mainly imported from Burma and Thailand, accounted for 50 per cent of total imports from this region in 1950-51, as against 40 per cent in 1938-39. This merely underlines the role which

this region has played in meeting India's serious post-war rice deficits after the Partition. The other important commodities imported from this region are petroleum oils (17 per cent in 1950-51 and 9 per cent in 1951-52), metals (8 per cent in the post-war period, as compared with 3 per cent before the war) and wood (4 per cent in 1950-51 and 16 per cent in 1951-52, as compared with 9 per cent in 1938-39). The share of imports of three commodities—rice, petroleum oils and wood—which was about 60 per cent of total imports from this region before the war, was 50 per cent in 1947-48, 80 per cent in 1950-51 and 71 per cent in 1951-52. This trend indicates India's greater dependence on imports of food and industrial raw materials after the Partition and the importance of South-East Asia as a source of supply of some of these commodities. In order to maintain a tolerably well-balanced trade with this region, India may have to import appreciable quantities of rice and timber from Burma and Thailand, of commodities like palm oil and quinine from Indonesia, of mineral, fuel and petroleum oils from Indonesia and Burma, and of non-ferrous metals from Burma and Malaya. But this will depend upon the tempo of industrialisation in India, the level of import prices and the extent to which the market for India's manufactures in this region can grow and develop in the future.

It should be noticed that countries of South-East Asia are of unequal importance from the point of view of India's foreign trade. The more important countries now are Burma, Singapore, Malaya and Thailand. Their growing importance is indicated in the following comparative table :

PERCENTAGE SHARE IN IMPORTS AND EXPORTS

	BURMA		SINGAPORE		THAILAND	
	Imports	Exports	Imports	Exports	Imports	Exports
1938-39	80	66	13	16	Negligible	5
1947-48	56	60	33	22	8	4
1948-49	57	44	24	23	14	11
1949-50	32	34	33	44	28	10
1950-51	40	33	35	53	17	6
1951-52	38	38	35	31	19	17
1952-53 (April-Aug.)	53	46	23	24	22	16

When we consider India's trade with the 'peripheral' countries —the U.S.A., Canada and Australia—we find that these countries,

and particularly the U.S.A. had contributed to the increase in the overall share of the Far Eastern and Pacific countries in India's foreign trade during World War I, but the position thus gained was lost as the U.K. and countries of Europe recovered their productive power and export capacity in the inter-war period. India's trade with the U.S.A. reached record levels during World War II. During the post-war years there was a steep decline in the U.S.A.'s share in India's imports from over 30 per cent in 1947-48 to about 16 per cent in 1949-50 mainly as the result of the dollar crisis which necessitated diversion of trade to non-dollar sources of supply. Nevertheless, it will be seen that the U.S.A.'s relative share in India's import trade has been very much greater than what it was before the war. This is also true of India's exports to the U.S.A. ; but the U.S.A.'s percentage share in exports, unlike that in imports, has remained comparatively steady. Canada's growing importance in India's trade has been a wartime phenomenon which has continued through the post-war years. Australia also leapt into prominence as India's trading partner in wartime, when normal sources of supply were inaccessible ; but it is interesting to note that an appreciable part of the wartime expansion of markets for each other's commodities has been consolidated. The one country with which India's trade has declined very heavily, as compared with pre-war, is Japan, although there is clear evidence of expansion of Indo-Japanese trade after 1947-48.

For a clear understanding of the broad trends of India's foreign trade with the Far Eastern and Pacific countries, it is necessary to stress a few fundamental points of analysis. It is well known that trade between non-industrial countries is very small in relation to their trade with industrial countries and that the trade of industrial countries with one another is large in relation to their trade with non-industrial countries. Thus the primary producing countries of this region have tended to trade overwhelmingly with industrial countries not only within this region but also outside it. The trade between the industrialising countries of this region, like India and Australia, with each other is expected to increase. Their trade with old industrial countries would tend to decrease, unless the latter exhibit powers of adaptation and "resourcefulness of supply". At the same time their trade with the primary producing countries of this region is likely to increase under propitious circumstances. The analysis contained in the subsequent chapters

throws light on this interesting aspect of the dynamics of the growth of foreign trade. Sound growth of foreign trade, however, depends on the relative stability of export earnings. Countries of South-East Asia are differently situated in this respect. As a recent study has shown, "Malaya, Pakistan and Indonesia have shown the greatest percentage variations over the cycle" (including the post-Korean raw material boom and the subsequent depression).[1] At the other extreme there are two countries, Burma and Thailand, whose export economies are mainly based on rice. As the result of the continuing rise in the price of rice till 1953, the cyclical trend in the case of these two countries has been obscured and "underlying a basically rising trend, fluctuations in export earnings have been narrow".[2] The intermediate group of countries are industrial exporters, such as Japan and India, and also Ceylon and the Philippines which, in spite of being primary producing countries, have enjoyed comparative stability of export earnings for special reasons. It is, therefore, possible to explain the firm trend of India's trade with Japan, Ceylon, the Philippines, Burma and Thailand. It would be wrong, however, to generalise on the basis of recent experience to which fortuitous factors have contributed their share. In fact, on the long-term estimation of possibilities, comparative stability of export earnings can be ensured only by diversification of production in South-East Asia, which would thus be conducive to sound growth of trade in this region. Here we touch the core of South-East Asia's economic problem at its most sensitive spot.

[1] *Economic Survey of Asia and the Far East, 1953*, Ch. II. p. 11.
[2] Ibid., p. 11.

PART I

INDIA'S TRADE WITH BRITISH COLONIES OF SOUTH-EAST ASIA

CHAPTER 1

BURMA

INDIA'S economic relations with Burma, until recently a province of the British empire in India, have developed on the basis of the expansion of British capitalistic enterprise in a potentially rich, undeveloped colony. Indian labour, capital and enterprise have in fact followed in the wake of British venture capital and skill and enterprise which laid the foundation of Burma's commercialised agriculture, transportation, mining, lumbering, domestic and foreign trade and finance. The contiguity of Burma as a province of India gave rise to an obvious kind of inter-regional trade in which Indians (in India as well as in Burma) participated. While the British merchants and traders were a kind of senior partners at the wholesale and the financial level, Indian merchants and traders acted as intermediaries between the former and the actual farmers or consumers. In this respect, the rest of India's economic relations with Burma did not present any special peculiarities : they were the same as those which characterised the activities of Indian merchants and traders in Calcutta or Bombay operating in India's vast, undeveloped hinterland.

The opening up of Burma to British capitalistic enterprise was not synchronous with similar development in the rest of India. Burma was drawn into the orbit of international trade on the basis of an intensive, colonial type of economic development with a time-lag. Colonial economic development began in 1868-69 after the British occupation of Burma. The process of economic change through which India had passed earlier was reproduced with a time-lag in Burma. The Western capitalistic system of production, finance and marketing was grafted on Burma's feudal system. The old feudal economy was preserved, because feudal landlordism had to be sustained as a factor of political stability. At the same time, however, the Western system of law and the Western judicial system were imported into Burma. In Burma, as in India, they induced the process of commercialisation of agriculture and enabled capitalistic enterprise to organise primary

production on the basis of scientific exploitation ; but in the process they spelt the disintegration of the traditional Burmese society.

The growth of Burmese economy since 1868-69 under the stimulus of foreign capitalistic enterprise exhibited the familiar characteristics of a developing colonial economy. There was an enormous increase in the production of oil, minerals, forest products, rubber, and agricultural commodities. Population increased from 2.75 million in 1872 to 5.58 million in 1901 and 7.05 million in 1921. Increased production was reflected in a phenomenal expansion of exports. Till the end of the nineteenth century rice exports predominated in the export trade, the total value of which was quite small. From the beginning of the present century, however, the products of capitalistic enterprise became more and more significant in Burma's export trade, although Burma's rice exports also increased tremendously.

VALUE OF EXPORTS (In crores of Rs.)

Year	Rice	Products of capitalistic enterprise	Tota
1868-69	2.0	.68	3.2
1872-73	2.9	.70	4.5
1903-04	14.9	4.00	20.5
1913-14	26.5	8.40	38.6
1926-27	39.2	21.40	65.5
1936-37	20.8	29.22	55.5

During this period low-income consumer goods predominated in Burma's imports. An important category of capital goods imported was transportation equipment which was needed to open up Burma to free trade.

VALUE OF IMPORTS (In crores of Rs.)

Year	Consumer goods	Transportation equipment	Total
1868-69	2.2	0.4	2.8
1872-73	2.4	0.6	3.2
1903-04	10.4	3.4	14.5
1913-14	17.4	6.2	25.4
1926-27	24.6	11.7	38.7
1936-37	12.6	7.2	21.8

The Burmese economy has so far remained a predominantly agricultural and mining economy with an important sector of

extractive and processing industries. Natural resources have been largely exploited by foreign enterprise. Burma's main industries, like oil, minerals and lumbering, have been controlled almost entirely by the British who have also controlled the import and the export trade. Transport and communications within the country and overseas have also been a British monopoly. The British have also enjoyed a virtual monopoly of banking. In retail trade and smaller industries and in the performance of the functions of middlemen in various capacities, Indians and Chinese have occupied an important place. Working capital for agriculture has been almost entirely provided by the *Chettiar* capitalists of South India. Owing to lack of business enterprise, the organised power of foreign vested interests in industry and finance and lack of familiarity with the ways of modern commercial and industrial civilisation, the Burmese have found themselves relegated to a lower economic status. By and large, the masses of the population who have worked in Burma's fields, mines and forests have not shared equitably the benefits of economic development, while the high natural increase of population has been a drag on the slow rise in the standard of living.

During the British regime Burma's inland waterways were developed rapidly, along with roads and railways, for exploiting the natural resources of the vast hinterland. As Rangoon developed into one of the important ports of South-East Asia, Burma developed trade relations with India across the Bay of Bengal and the U. K. and the continent of Europe. In the case of Burma, as in the case of South-East Asia in general, the development of trade along new lines in plantation products is of comparatively recent date, not earlier than the beginning of the present century. The exports of Burma, again as in the case of South-East Asia as a whole, have been more widely distributed than the products of tropical Africa and America. The U. K., India, continental Europe and the U.S.A. have absorbed Burma's exports. Burma's import trade, however, has been largely directed to the U.K. and India owing to close economic, political and financial ties which bound Burma to these two countries.

The following table gives an idea of the volume and value of principal commodities exported from India to Burma and imported from Burma into India before, during and after World War I

(quinquennial averages) estimated on the basis of Burma trade returns.

Principal Exports of India to Burma—Indian Merchandise

Articles	Average Quantity (thousands)			Average Value (lakhs of Rs.)		
	1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24	1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24
Coal (tons)	413	342	370	51	65	1,09
Cotton-twist and yarn (lbs.)	10,395	12,636	18,944	56	97	2,35
Cotton piecegoods (yds.)						
Grey (unbleached)	7,859	8.570	8,649	14	22	37
White (bleached)	3,707	5,895	4,485	8	18	25
Coloured (printed or dyed)	12,199	21,312	18,122	27	60	95
Jute bags (No.)	38,948	39,822	40,123	1,19	1,66	1,88
Betelnuts (cwt.)	311	279	294	60	56	64
Fruits and Vegetables	...	...	...	31	19	36
Tobacco (lbs.) (unmanufactured)	21,160	16,432	6,687	58	43	51
Pulses (tons)	14	12	15	20	20	36
Wheat flour (tons)	16	12	18	29	27	52
Iron and Steel (tons)	1	30	—	1	—	3
Cigarettes (lbs.)	83	—	262	1	—	10
Oils (groundnut) (gallons)	1,227	750	1,167	23	14	28
Tea (lbs.)	997	1,279	1,952	7	9	13
Butter (lbs.)	423	—	525	4	—	7
Ghee (cwt.)	39	30	31	25	22	34
Boots and shoes (pairs)	43	—	210	1	—	8

Principal Exports of India to Burma—Foreign Merchandise

Articles	Average Quantity (thousands)			Average Value (lakhs of Rs.)		
	1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24	1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24
Carriages and carts				2	4	14
Cotton piecegoods (yds.)						
Grey (Unbleached)	3,009	3,116	5,496	5	9	24
White (bleached)	2,586	3,741	2,003	5	13	11
Coloured (printed or dyed)	2,333	4,434	3,843	6	20	25
Instruments, apparatus	—	—	—	3	2	1
Machinery and millwork	—	—	—	1	3	—
Iron and Steel (tons)	2	3	2	3	13	16
Drugs and medicine	—	—	—	2	2	—
Coal tar dyes (lbs.)	—	11	—	—	4	—
Hardware	—	—	—	4	7	8

Principal Imports from Burma into India

Articles	Average Quantity (thousands) 1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24	Average Value (lakhs of Rs.) 1909-10 to 1913-14	1914-15 to 1918-19	1919-20 to 1923-24
Rice in husk (tons)	214	168	93	1,54	1,12	86
Rice not in husk (tons)	383	806	709	4,18	7,96	10,93
Pulses (tons)	19	19	46	17	19	64
Gram (tons)	5	1	15	5	1	8
Fresh vegetables (value)	—	—	—	1	1	19
Mineral oils :						
Kerosene (gallons)	95,570	110,821	119,290	3,32	3,72	4,10
Lubricating (gallons)	—	2,967	2,160	—	21	21
Benzine and Petrol (gallons)	—	4,215	14,371	—	6	2.01
Mineral oils (others) (gallons)	1,572	5,199	4,280	11	34	17
Candles (lbs.)	4,409	5,455	6,237	12	15	18
Stick Lac (cwt.)	—	—	—	3	6	43
Tin (cwt.)	1	2	3	2	3	5
Teakwood (tons)	128	110	166	1,17	1,82	2,39
Other timber (value)	—	—	—.	18	14	28

An analysis of the quantities and values of the types of goods exported from India to Burma shows the complementary character of the economies of the two countries. Naturally, jute bags were the most important commodity exported in terms of total value in view of the fact that an agricultural country with a large export trade in rice needed bags, the demand for which fluctuated with the size of the rice crop to be handled. The consumer goods exported to Burma were either raw materials entering into the production of primary necessaries of life, like coal and cotton twist and yarn, or small luxuries of the poor masses, like betelnuts and unmanufactured tobacco. The most important commodities in the list may be arranged as follows in the order of total values exported during the three periods selected :

Order of Importance of Principal Commodities

Pre-war	War	Post-war
1. Jute bags	1. Jute bags	1. Cotton twist and yarn
2. Betelnuts	2. Cotton twist and yarn	2. Jute bags
3. Tobacco		

Pre-war	War	Post-war
4. Cotton twist and yarn	3. Coal	3. Coal
5. Coal	4. Coloured piece-goods	4. Coloured piece goods
	5. Betelnuts	5. Betelnuts
	6. Tobacco	6. Tobacco

It will be noticed that jute bags, coal, betelnuts, and tobacco (unmanufactured) figured among the first five or six important commodities. Betelnuts and unmanufactured tobacco were pushed down in the order of relative importance ; but jute bags and coal almost kept their high places. The progressive increase in the importance of cotton twist and yarn—the raw material of Burma's handloom industry—from the pre-war period to the war period and the post-war period is a significant trend which emerges from the table and is explained by the progress of the Indian cotton textile industry. Indeed, it is remarkable that cotton twist and yarn occupied the first position in the order of total value exported during the immediate post-war period in the face of the revival of foreign competition. Similarly, it should be noted that coloured piecegoods (printed and dyed) of Indian origin appeared as an important export article in the Burmese market during the first World War and maintained its relative importance in the post-war period as the result of tariff protection granted to the Indian cotton textile industry.

Indian exports to Burma also included re-exports, largely through British export houses in India, of certain categories of capital goods, like iron and steel, and consumer goods, such as hardware, drugs and medicines, and piecegoods imported from other countries. The most important category was, of course, that of cotton piecegoods of all varieties probably mostly of British manufacture.

An analysis of India's imports from Burma shows certain interesting trends. The most important commodities in terms of total value imported were rice, kerosene oil and petrol, and teak-wood. The relative importance of these commodities before, during and after World War I may be indicated as follows, the commodities being arranged in the order of total value imported :

Order of Importance of Principal Commodities

Pre-war	War	Post-war
1. Rice not in the husk	1. Rice not in the husk	1. Rice not in the husk
2. Kerosene oil	2. Kerosene oil	2. Kerosene oil
3. Rice in the husk	3. Teakwood	3. Benzine and petrol
4. Teakwood	4. Rice in the husk	4. Teakwood

It will be noticed that rice not in the husk maintained its first position throughout. Rice in the husk dropped from the third to the fourth place during the war period, and disappeared ultimately from the list of four important commodities. This merely indicates the progress of the rice-milling industry in Burma.[1] Kerosene oil, a commodity consumed by the masses of the Indian population, occupied the second place throughout, next only to rice. It should also be noted that it was during World War I that there was an increase in the imports of Burmese rice from 383,000 tons before the war to 806,000 tons. There was a decrease during the post-war period, but imports were still 709,000 tons. The imports of pulses were thrice as much after the war as they were before the war. India's increasing dependence on food imports from Burma was an important trend which had a significant bearing on India's food problem in later years highlighted by the Bengal famine of 1942. Another trend in the post-war period was the appearance of benzine and petrol as important imported commodities. Fairly large quantities of benzine and petrol were imported into India during World War I; as the result of the progress of oil extraction in Burma this country became an important source of supply after the war. In fact, after the war these two commodities occupied the third place among the four most important commodities. Tin, candles, and wood other than teak also rose in importance as Burma's exports to India after the war. Another item which leapt into prominence after the war was fresh vegetables. Fruits also figured in imports in later years.

During the period following 1923-24, the major factor which influenced the trade relations between Burma and India was the

[1] In 1936-37 there were 659 mills using steam or oil engines, compared with 26 in 1872.

3

great depression of the 'thirties, but the fundamental pattern of trade analysed above persisted. During the inter-war period, the products of India's protected industries, such as iron and steel, sugar, and cotton textiles increasingly found their way into Burma. Exports of *ghee* and pulses also increased. Groundnut oil established itself as an article of export to Burma. Boots and shoes began to penetrate into Burma's market. These trends reflect the progress of India's industrialisation in the 'thirties under the stimulus of protection and other favourable factors. But the prolonged depression in Burma's agriculture and plantation industries was a drag on the sale of India's manufactured goods in Burma.

In the case of tropical countries like Burma, the depression in the export trade from 1928-29 to 1932-33 was principally a fall in prices, while the volume of exports slightly increased. Primary producers tried to maintain their incomes by increasing their output as prices fell. The volume of exports was not reduced until 1932 when it was still little less than in 1928. Much of the output went into stock and world stocks of primary products rose by 24 per cent between 1929 and 1937. In the period of recovery, from 1932 to 1934, the rise in the total value of exports of tropical countries like Burma was due more to an increase in the volume of trade than to a rise in prices. Prices remained low, and even in 1937 they were much below the level of 1928. In Burma, as in India, the acute distress of the masses of primary producers also limited the expansion of demand for manufactured goods.

In the case of India's exports to Burma, while the quantities actually increased in many cases, the total value of every item of export was much lower than the earlier post-war average owing to a fall of prices. The position is clearly seen in the following table :

PRINCIPAL EXPORTS OF INDIA TO BURMA

Articles	Quantity (thousands)		Value (Lakhs of Rs.)	
	Post-war average	1932-33	Post-war average	1932-33
Coal (tons)	370	341	1,09	55
Cotton—twist and yarn (lbs.)	18,944	12,616	2,35	65
Cotton piecegoods				
Grey (yds.)	8,649	14,664	37	28
White (yds.)	4,485	5,595	25	14
Coloured (yds.)	18,122	22,913	95	70

Articles	Quantity (thousands) Post-war average	1932-33	Value (Lakhs of Rs.) Post-war average	1932-33
Jute bags (No.)	40,123	41,181	1,88	1,11
Betelnuts (cwt.)	294	225	64	34
Tobacco (lbs.) (unmanufactured)	16,687	13,399	51	28
Pulses (tons)	15	13	36	20
Wheat flour (tons)	18	19	52	30

A noticeable trend is the expansion of the market for piecegoods in Burma at the expense of the U.K. and Japan under the shelter of protection.

Principal Imports from Burma to India

Articles	Quantity (thousands) Post-war average	1932-33	Value (Lakhs of Rs.) Post-war average	1932-33
Rice in husk (tons)	93	110	86	55
Rice not in husk (tons)	709	936	10,93	9,93
Pulses (tons)	46	42	64	28
Oil (mineral)				
Kerosene	119,290	126,397	4,10	8,49
Lubricating	2,160	7,465	21	65
Benzine and petrol	14,371	46,650	2,01	5,42
Candles	6,237	2,752	18	7
Lac	—	—	43	9
Teakwood	166	126	2,39	1,64
Other timber	25	17	28	18

The year 1932-33 marked the point in the downswing of the trade cycle at which India's total trade reached the lowest level, i.e., Rs. 338 crores, as compared with Rs. 452 crores in 1929-30.

The effects of the depression are clearly seen in the decline in the total values of imports, in spite of a substantial increase in quantities, in the case of both husked and unhusked rice. This is explained by the steep fall in the prices of cereals. There was, however, an opposite trend in the case of mineral oils. The quantity imported more than doubled itself in the case of each category of mineral oils as the result probably of increasing extraction and progress of refining, but there was also a commensurate increase in the total value even during the worst year of the depression.[1]

On the whole, the depression had little or no effect on the composition of India's trade with Burma, and the increase in the

[1] The production of mineral oils was 300 million gallons in 1937, compared with 118.5 million gallons in 1904.

exports of piecegoods from India to Burma and the increase in the exports of mineral oils and rice from Burma to India were mutually advantageous factors which released to some extent the deflationary pressure on the economy of either country.

The closing years of the inter-war period were in many ways significant in the history of the trade relations between India and Burma. Burma was separated from India with effect from 1st April, 1937, but the *Burma and India (Trade Regulation) Order, 1937*, provided for free trade between the two countries for a period of three years from the date of separation. By the *India and Burma (Burma Monetary Arrangements) Order, 1937*, the currencies of the two countries were also linked and remained under the management of the Reserve Bank of India. Thus in respect of both trade and currency they constituted a single unit in respect of their external economic relations till the outbreak of World War II.

An analysis of the composition of India's trade with Burma in 1938-39—the year which marks the end of the inter-war period and also the end of an epoch for both India and Burma—exhibits the same broad pattern as in the early years of this period.

The most important articles of imports from Burma were rice, mineral oils, and teakwood, the total value of which was 87 per cent of the total value of Burmese imports into India.

	Value of imports in 1938-39 (Lakhs of Rs.)	Percentage to total value of imports
Rice ...	11,70	48
Mineral oils—		
Kerosene and petrol ...	7,51	30.9
Teakwood ...	2,00	8.1
Total ...	21,21	87.0
Total Burmese imports ...	24,35	100

While India was a very important market for Burmese exports, Burma's internal market before World War II was dominated by the metropolitan country. Except in the case of jute bags and coal, in respect of which there was little or no competition, India's manufactured products, such as cotton twist and yarn and piecegoods, were able to command the Burmese market under the shelter of protection. In 1938-39 cotton piecegoods, cotton twist and yarn, and jute bags accounted for 44 per cent of the total

value of India's exports to Burma. The variations in the quantity and value of these commodities during the crucial years are indicated below :

	Quantity (thousands)			Value (in Lakhs of Rs.)		
	Post-war average	1932-33	1938-39	Post-war average	1932-33	1938-39
Cotton piecegoods (yds.)	31,256	43,172	85,519	157	112	180
Cotton twist and yarn (yds.)	18,944	12,616	12,443	235	65	61
Jute bags (No.)	40,123	41,181	58,548	188	111	132
				580	288	373

It is apparent that, irrespective of the depression, there was a progressive increase in India's exports of cotton piecegoods and jute bags to Burma during the inter-war period. In the case of cotton twist and yarn, however, there was just the opposite trend, there being a decline in quantity by almost one-third as compared with the post-war average. But if we consider the total value of exports of these commodities, there was a drastic decline due to a fall of prices, except in the case of piecegoods, where in spite of the fall of prices, the increase in the quantity exported was very appreciable in 1932-33, compared with the post-war average, and almost double the quantity exported in 1932-33, if we compare it with the quantity exported in 1938-39.

Reference should now be made to certain aspects of the economic relations between India and Burma during the closing years of the inter-war period. We have already mentioned the *India and Burma (Trade Regulation) Order, 1937*, which maintained the *status quo* in respect of the inter-regional trade between India and Burma. Certain broad features of this Order may be briefly summarised. This Order was devised to reconcile the economic interests of India and Burma and to avoid economic dislocation as the result of the separation of Burma. The object was to "prevent undue disturbance of trade between India and Burma in the period immediately following the separation" and to "safeguard the economic interests of Burma during that period." First, the movement of goods from India to Burma or from Burma to India was not to be subject to import or export duties in excess of duties current before separation. Exception was made in the case of (*i*) opium, salt, salted fish or spirit, (*ii*) foreign goods enjoying

duty-free treatment in Burma and brought from Burma to India and (*iii*) duty on tea if Burma ceased to be a party to the International Tea Restriction Scheme. Secondly, reduction or abolition of pre-existing duties on imports or exports required the previous consent of the Governor of Burma. But reduction or abolition of duties on goods not produced in Burma required two months' notice by the Governor-General of India. A similar procedure was laid down in respect of reduction of duties on goods not manufactured in India, if such reduction was wanted by Burma. Thirdly, uniformity of cess on cotton and lac was secured in both India and Burma. Fourthly, an excise duty levied by either country on goods produced in either was accompanied by a countervailing import duty on goods imported from the one by the other.[1] Lastly, in regard to the interpretation of "home-trading ships" and "coasting ships" no distinction was recognised between India and Burma.

The special economic interests of Burma were safeguarded by the following provisions :

(*i*) An export duty could be imposed by Burma on rice exported to India, provided it did not exceed the duty levied on rice exported to other countries.

(*ii*) In the matter of determining the import quota of Japanese cotton piecegoods, Burma was free to vary the quantity, provided it did not exceed the actual quantity of Japanese cotton piecegoods in 1934-35.

(*iii*) Burma was also free to levy any duty it thought fit on goods moving by land to, and from, countries other than India, provided that the advantages already enjoyed by India were not seriously affected.

The separation of Burma also brought to the fore the question of Indo-Burmese financial settlement. The debt of Burma to India was estimated in 1938 at Rs. 50.75 crores and the annuity required to redeem the principal and interest in 45 years at Rs. 2.25 crores. In addition, the Burma Government was to bear 7½ per cent of the liability of the Government of India in respect of Central pensions on the date of separation. This liability had also to be capitalised and discharged by an annual payment over a period of 20 years. The financial liability mentioned above is

[1] Land frontier trade was treated on par in this respect with trade by sea to guard against diversion of trade from the sea route to the land route.

still undischarged, and the settlement of this liability will also have an important bearing on the economic relations between India and Burma.

Towards the end of the inter-war period, agrarian riots and the wave of anti-Indian feeling which swept rural Burma highlighted the unstable character of the development of Burma's colonial economy, in which Indian capital and enterprise for reasons of close proximity to Burma and Burma's congenial environment had been playing a prominent role since 1869. This aspect of Indo-Burmese economic relations deserves special mention, since it transcends the development of mutually advantageous trade relations between India and Burma.

When the Western demand for rice arose after 1869, the object of the Government of India was to bring Burma under intensive rice cultivation as quickly as possible. The sparse population of Lower Burma was not equal to the task. At first the Government relied upon immigration from Upper Burma, but this was not successful. From 1874 onwards, attempts were made to attract immigrants from India at first as agriculturists by large grants to Indian landlords and later by importation of labour. The price of paddy had gone up from Rs. 50 per 100 baskets to Rs. 100 per 100 baskets. There was naturally greater demand for agricultural labourers and rice farmers. With improved communication with India and the grant of a subsidy to shipping companies, the stream of seasonal Indian migration to Burma was stimulated. The development of paddy cultivation to which Indian labour and capital largely contributed was almost phenomenal, the area under paddy in Lower Burma having increased from 2,000,000 acres in 1872 to 10,000,000 acres in 1936-37. Immigration of Indians into Burma did not interfere with the rights of the indigenous population ; there were vast open spaces which were available for exploitation. Indeed the rapidity of the growth of paddy cultivation was such that it outran the available labour resources of Burma. Moreover, Burmese labourers were not attracted by the conditions of work in Lower Burma. Indian immigration into Burma thus reached its peak, with a total of about 400,000 in 1927 (after which there was a considerable decline). During the twenty years ending with 1939, the actual increase in the Indian population

of Burma was less than 10,000 persons per annum on the average.

With the vast stream of seasonal migration of Indian agricultural labourers, Indian capital also flowed into Burma. There was also migration of Indian industrial workers. The internal trade of Burma was largely financed with Indian capital. Indians dominated particularly in the retail trade in necessaries and small luxuries. Within fifty years the city of Rangoon was transformed from a predominantly Burmese city into a predominantly Indian city. The total taxes paid for the city of Rangoon was Rs. 60,00,000, of which Indians paid 55.49 per cent and the Burmese paid 11.27 per cent. 213,000 persons out of the total population of 400,000 were Indians. All the large private markets in the city were owned by Indians. Indians also spread themselves over the large towns and districts and established themselves in industry and business. In 1931 Indians formed 7½ per cent of the total population of Burma. Their share was 46 per cent in transport, 16 per cent in industry and 17 per cent in trade. After 1931, however, the proportions varied in favour of the Burmese.

It is impossible to judge whether, or to what extent, the Burmese could have filled places occupied by Indians. It is also doubtful whether Indian labour could be replaced by Burmese labour without such detriment to Burma's industry, trade and agriculture as would have reacted adversely on the economic condition of the masses of the population. But the fact remained that the benefits of capitalistic exploitation of Burma's natural resources on the basis of colonial economic development were very inequitably shared between the Burmese, on the one hand, and foreign labour, capital and enterprise, on the other. The idea of the separation of Burma from India came to the forefront in 1916 and was motivated by the real and fancied conflict of economic interest between Indians and the Burmese within Burma. By the time the great depression appeared on the scene, the first tempo of economic development had spent itself, land had become scarce and alternative sources of supply had arisen in other countries.

With the depression, the halcyon days for Burma were over. The Burmese were forced by circumstances to engage themselves in unpleasant jobs hitherto left to Indians who had already established themselves in Burma's industries. The emotion of nationalism generated in the 'thirties was brought to bear on the economic

distress of the Burmese and prepared the way for active hostility against Indians. It may be pointed out in this context that the most deep-seated single cause of economic discontent was the feudal character of Burma's land system. Only one-half of the cultivated area of Lower Burma was in the hands of peasant proprietors, while the other half was in the hands of non-agricultural, absentee proprietors. There was a gradual decline in the number of owner-cultivators, which assumed serious proportions in the depression. The tenants in Burma were tenants-at-will and did not enjoy occupancy for more than a year. The rise of the agricultural proletariat was thus a menace to social stability. And the development of commercialised agriculture in Burma had assumed such a peculiar character that a stable system of peasant proprietorship based on family agriculture had no chance of coming into existence. Added to all these factors, there were the undesirable consequences of mixed marriages between Indians and the Burmese, particularly as regards property rights and the status of the Buddhist wives of Indians.

Burma was not satisfied with the operation of the *India and Burma (Trade Regulation) Order of 1937* and took the earliest opportunity on the 1st April, 1940, to terminate the Order with effect from 1st April, 1941. On the 3rd April, 1941, the Governments of India and Burma concluded a fresh agreement defining the principles on which trade between the two countries should thereafter be regulated. There were certain valid and compelling reasons for Burma to seek a new tariff regime, particularly in the situation created by World War II. Under the *India and Burma (Trade Regulation) Order of 1937* re-exports of foreign goods from India to Burma were duty-free. The Burmese rightly thought that this was anomalous and that Customs duties on such re-exports should be credited to the country of final importation. It was clear that Burma stood to gain by the acceptance of this principle as the following statistics show :

	1937-38	1938-39	1939-40	1940-41
India's re-exports to Burma (Rs. lakhs) ...	100.5	98.1	110.1	169.7
Burma's re-exports to India (Rs. lakhs) ...	41.0	53.5	71.3	65.4

An even more important grievance of Burma was that, with the exception of a few countervailing import duties (in cases

where excise duties were levied), no import duties could be levied on imports coming from India for revenue purposes. Imports from Burma into India which were not taxed were a relatively small percentage of India's total imports, the maximum being 19 per cent in 1939-40. But imports from India into Burma formed as much as 55.3 per cent of total imports in 1939-40 and 62.8 per cent in 1940-41. Burma's inability to tax such a large proportion of imports had a much greater proportionate effect on her Customs revenue. Burma was incurring large defence expenditure and was expected to spend large sums of money on social services including the implementation of the policy of land purchase for the benefit of landless peasants. Since imports from India were increasing after the outbreak of the war, it was only fair that Burma should be free to tax them for meeting urgent revenue needs. Burma also rightly contended that the Indian tariff which was designed to create and foster Indian industries by means of high protective duties was hardly suited to a predominantly agricultural and mining economy.

The India-Burma Trade Agreement of 1941 settled these points to the mutual advantage of the two countries. The two countries agreed to accord to each other Most Favoured Nation treatment. A three-decker tariff was substituted for the *Indian and Burmese Customs Tariff*. The lowest tariff was to apply to goods of Indian and Burmese origin. The middle tariff was to apply to goods in respect of which there was a commitment of Empire Preference. The highest rate was applicable to goods of non-Empire origin. Thus free trade between India and Burma was replaced by a regime of mutual preference. Burma gained the right to vary the rates of duty within the structure of a scheme of preferences. The general principle of the new Agreement was that goods of Indian and Burmese origin enjoyed in the market to which they were exported a margin of preference of 10 per cent over similar articles enjoying preferential treatment, when imported from the U.K. or from colonies, and 15 per cent over similar articles liable to duty at the standard rate. There were recognised exceptions to this general rule. In certain cases duty-free treatment or entry at guaranteed maximum rates of duty was prescribed. Special treatment was accorded to certain important commodities exported by either country. In the case of Indian piecegoods, the margin of preference was 7½ per cent over goods of U.K. origin, the

maximum duty bound was 10 per cent and the existing quota of Japanese piecegoods was not to be increased. On a large range of Burma's products such as timber, lead, tin and minerals other than metals duty-free treatment was guaranteed. Burma reciprocated by undertaking not to impose duties on coir and paper. The Agreement was to run for an indefinite period subject to the right of either party to denounce it at six months' notice.

It appears from an analysis of the Agreement that the tariff contemplated was almost entirely a revenue tariff. In the case of Burma the import duties had a protectionist character only in the cases of sugar, salt, and groundnut oil. During the first six months of the operation of the Agreement, Burma realised more than Rs. 50 lakhs from the duties on Indian imports, and it appears from the trend of trade up to the Japanese invasion of Burma in December, 1941, that the new duties did not in any way disturb the normal flow of trade between India and Burma.

It is necessary to refer to products of certain recently established Indian industries which gained a foothold in Burma's market between 1936-37 and the occupation of Burma by Japan.

INDIA'S PERCENTAGE SHARE IN BURMA'S IMPORTS

	1937-38	1940-41
Butter ...	60.6	65.8
Paints ...	48.5	59.7
Soap ...	89.6	95.3
Rubber manufactures	24.9	71.7
Paper ...	25.9	42.7
Boots and Shoes ...	53.1	84.6

Owing to war conditions there was a considerable fall in imports of these commodities from other sources of supply and Indian goods stepped into the breach. In the case of soap, there was competition from the Burmese local product in respect of washing and laundry soap. In the post-war period this competition will become keener. In toilet soap, as in other commodities, the free trade regime till 1941 favoured the Indian product. But even after 1941 for a short period the revenue duties and the margins of preference strengthened the position of the Indian product. We shall examine later how far India has been able to retain her hold in Burma's market for these products during the post-war period.

As regards Burma's main exports to India between the outbreak of the war and the occupation of Burma by Japan, we find that

more than half of Burma's exportable surplus of rice before the war was absorbed by India. This was only 5 per cent to 6 per cent of India's total consumption of rice, but it was an important safety-valve against an undue rise in the price of rice. This safety-valve still operates, although there has been a substantial increase in the area under paddy since the Bengal Famine of 1942. As regards mineral oils, almost the entire exports of mineral oils from Burma found their way to India. India's share of Burma's exports of teakwood was about 60 per cent before the war. During the war Burma was also exporting considerable quantities of tin (100 per cent) and lead (31 per cent in 1940-41). India was not the principal market for Burma's raw rubber, but till 1940-41, 90 per cent of India's requirements of raw rubber were met by Burma.

Burma passed through a crisis in her chequered existence during the period of the war, the Japanese occupation and the reoccupation of Burma by allied nations followed by the aftermath of the war and the period of rehabilitation. During the period of 'occupation' Japan could not supply Burma with adequate quantities of manufactured goods like cotton piecegoods and boots and shoes, and when the war ended there was scarcity of essential commodities in Burma's markets. Burma lacked markets for rice during the period of Japanese occupation, and the position worsened as the result of Japanese shipping losses. The feeling of insecurity paralysed economic incentive. Farmers who had laid by large stocks of rice before the war found it unattractive to plant more paddy than was needed for their subsistence. The war wrought terrific destruction of Burma's economic potential. Between two-thirds and one-half of the productive capital in the form of buildings, equipment, machinery and land improvements were destroyed. The oil and milling industries and most of the timber industry were in rack and ruin. One and a half million acres of rice land went out of cultivation. Burma had not only to rehabilitate her apparatus of production to restore production to the pre-war level, but had also to provide for a population which reached the level of 6 per cent above pre-war in 1951 and was growing at the rate of perhaps 1 per cent per year. As an independent State Burma needed a re-orientation of production and trade to meet an entirely new and difficult economic situation.

At the same time, India was also facing economic problems of unparalleled magnitude. The structural changes in the Indian economy after Partition, which meant loss of extensive areas under foodgrains like rice and wheat and industrial raw materials like jute and cotton, made India more dependent upon foreign supplies of foodgrains and basic raw materials. At the same time, it was more necessary than ever before to export manufactured products. The situation was complicated by the pressure of wartime inflation aggravated by deficit budgets, loss of business confidence, and the economic strain of rehabilitation of refugees.

Both Burma and India shared serious difficulties which stood in the way of resumption of normal economic relations, but friendly relations between the two countries contributed to the gradual development of mutually advantageous trade and economic collaboration.

The re-orientation of India's economic relations with Burma, including trade and the economic status of Indians, has to be viewed in the perspective of the gradual evolution of Burma's national economic policy. Economic rehabilitation in Burma has started on the basis of large-scale savings effected by the Government and State Trade Boards, because private saving has been small in the face of economic dislocation, unemployment, and lack of economic activity. Public savings consist primarily of the budget surplus *plus* provision for depreciation *plus* the retained profits of Trading Boards, i.e. the profits not paid to the Government in taxes or rehabilitation contributions. It is obvious that financing the rehabilitation of the economy by public savings largely in the form of foreign exchange earnings involves very stringent restriction of imports and taxing exports as well as imports as much as possible and also profits of traders and businessmen. This was inevitable in the short run, although ultimately public savings have to the supplemented by an export surplus based on restoring the pre-war output of rice, oils, and minerals. To the extent that Burma gets foreign aid the need for drastic regulation and taxation of foreign trade will become less and less.

Rice production is the life-line of Burma. Restoration of the pre-war level of output and exports as early as possible is the key to the solution of Burma's economic problems. The Burmese Government after the war at once took measures to

rehabilitate the rice economy. Fortunately, owing to the high prevailing prices of rice in the world market it was possible for Burma to rehabilitate and assist the rice farmers and to add to her public savings out of the sale proceeds of rice. This was possible because of State trading in rice conducted on the basis of bulk contracts by the State Agricultural Marketing Board.[1] During 1948-49 the Government declared that part of the profits of this Board which sold rice bought locally to foreign buyers would be spent by the Government on opening a price stabilisation fund for the benefit of the rice farmer, starting agrarian banks, and building up a reserve fund for mechanical cultivation and also on rural rehabilitation. Complaints are frequently made about the high export price of Burmese rice (£ 40 a ton in 1950). This high price is explained by the high cost of production, the high cost of internal transportation, the grant of subsidies to farmers to encourage them to grow rice as a second crop, the writing off of loans given to farmers who were cultivating rice under great hardship and personal danger, and the almost seven-fold rise in the prices of goods essential for the farmers' subsistence. There is, however, no doubt that at least part of the burden of the relief and rehabilitation of the Burmese rice farmers has been thrown on foreign consumers of Burmese rice, like India, Ceylon, and Indonesia. But at the same time there is also no doubt that it was extremely creditable for the Government and people of Burma to have made provision, after meeting domestic requirements, for an exportable surplus of 1¼ million tons of rice and rice products in 1949, in spite of the very dangerous conditions of harvesting and marketing of rice due to the activities of insurgents.

Another important export industry, extraction of timber, was nationalised for the purposes of both rehabilitation of the industry and its proper utilisation by the State in the general interest. On the 1st June, 1948, the Government nationalised about one-third of the forests worked by the large lessees and the rest was nationalised on the 1st February, 1949. Owing to

[1] In 1949-50 the State Agricultural Marketing Board made a profit of Rs. 12 crores. In two years this Board and the State Timber Board were able to contribute nearly Rs. 150 million to the Rehabilitation and Development Fund.

the disturbed conditions in the forest areas, the riverine traffic remained closed and it was not possible to bring down considerable quantities of logs held up on the rivers of Upper Burma. But subsequently the saw-milling industry revived. The State saw-mills at Rangoon resumed work on the 18th April, 1950. The State Timber Board has been marketing timber not only on its own but also through recognised traders who operate on its behalf. Private trading seems to have been more important than State trading, but the entry of the State into the export trade in timber had initial success and profits on trade as well as in saw-milling have naturally been a source of much-needed revenue.

Burma's import policy was based on austerity after the war. Import control was sufficiently drastic to cover almost every article of any importance and was designed to achieve a favourable balance of trade and a stable currency.[1] These severe restrictions were relaxed to some extent in 1949. The foreign exchange quota for imports was raised from Rs. 12 crores, originally fixed, to Rs. 35 crores. Luxury goods, like silk and silk fabrics, perfumery and toilet goods, dry fish, onions and chillies, were shifted from the prohibited to the restricted list. In respect of the last three commodities, imports from India were thus resumed. The Government of Burma imposed a licence fee of 2 per cent on each import licence and revalidation of each import licence. The abnormal profits of traders were thus taxed at the source to some extent. Transfer of licences from one person to another (a means of profiteering in usual circumstances) was prohibited. But what undermined the position of established traders was the policy of issuing import licences in such a way that the indigenous people obtained not less than 60 per cent of the import licences. Many Indian traders were forced to close down their business, because having had to share 40 per cent of the licences with the British and Chinese importers, the amount which they could import was insignificant. As regards export control the Government of Burma pursued the policy of maximising foreign exchange earnings by fixing, for example, fairly high minimum prices for lead, zinc and tin, and of maximising the State trading margins

[1] In respect of absolute necessaries the ceiling was the pre-war level, in the case of semi-luxuries there were monetary ceilings and in the case of luxuries there was total prohibition. In 1948 stringent control of imports and remittances was designed to arrest a flight of capital.

in respect of rice, timber and oils. For conserving domestic supplies the export of textile goods and materials, cattle, foreign goods, metal scrap, vegetable oil, and copra was banned.

An interesting technique by which imports were stimulated in order to bring down prices of consumer goods without affecting Burma's foreign exchange earnings was the liberal issue of import licences, if the importer did not ask for remittance. The success of this technique may be judged from the fact that during three months of 1949, 2,30,738 lbs. of tea and 84,33,120 cigarettes were imported from India to Burma.

It is abundantly clear from what has been said so far on the post-war economic trends in Burma that foreign capital and enterprise in general and Indian capital and enterprise in particular could not possibly regain the *status quo ante* of Burma's pre-war colonial economic set-up. Burma's Land Nationalisation Act has seriously hit the *Chettiars*, an important element of the Indian business community in Burma. Under this Act all land is owned by the State and the landlord has merely the right to cultivate and hold the land as a State tenant. The compensation to be given to landlords in Upper Burma is to be equal to land revenue assessable in 1947-48 and in Lower Burma it is to be equal to 12 times the assessable revenue in 1947-48. In fixing the compensation the nature of tenure, the period of possession, and the benefits already enjoyed will be taken into account. Naturally, the *Chettiar* community which owned about 25 per cent or nearly 3 million acres of paddy land in Lower Burma and which was the only source of agricultural finance before the war is inevitably a victim of agrarian revolution.[1] Preferential treatment of the indigenous citizens of Burma in the matter of distribution of import licences has also undermined the position of Indian traders in the field of foreign trade. The ban on the import of cotton handloom *longyis* from India for the purpose of protecting domestic handloom weaving has caused hardship to a group of Indian dealers who were carrying on trade in this line for generations and also to handloom weavers in India. But the Indian trader is still important as an exporter

[1] Many of the Indian landowners left Burma when Burma was overrun by the Japanese. The settlement of compensation has been postponed owing to the proccupation of the Burmese Government with the law and order situation.

of teakwood. Indian rice-millers still finance rice operations in the initial stages by means of import of Indian short-term funds permitted by the Reserve Bank of India on the condition that the capital was repatriated before July every year. In the field of industry and trade, Indian business enterprise still holds its own as the following statistics of income-tax returns clearly show, although the export trade in rice and timber is in the hands of the Government, and consumers' co-operative societies (6,500 in 1947-48) are being encouraged by exempting their profits from taxation.[1]

PERSONS LIABLE TO TAXATION

(Other than salary-earners who are assessees)
1947-48

Community	Companies	Firms, Hindu undivided families and other associations of persons	Individuals	Total
Burmese	16	326	1,983	2,325
Europeans	72	5	33	110
Chettiars	2	46	46	94
Other Indians	55	421	1,830	2,306
Chinese	5	371	1,049	1,425

It would be instructive to attempt an analysis of the composition and trends of Indo-Burmese trade after the war in order to see how far the economic changes in the two countries have influenced the character of trade.

Even a cursory analysis of the exports of Burma to India shows that food products and timber, the two staple exports of Burma, have accounted for the bulk of exports. For example, during the half-year, October, 1948—March, 1949, the value of food products (rice, potatoes, beans, gram, rice bran, and other items of food) was Rs. 5,18,64,642, while the value of timber was Rs. 1,34,54,263. The total value of exports of food and timber was thus Rs. 6,53,18,903 out of the total value of all exports to India amounting to Rs. 6,70,83,253. This was very largely the traditional pattern, with mineral oils missing, because the oil industry had not by then resumed exports.

[1] According to the statistics compiled by the Burma Indian Chamber of Commerce, Indian merchants in 1947 handled 7.3 per cent of exports, 40.4 per cent of imports and 24.4 per cent of re-exports.

The composition of Burma's imports from India shows the predominance of gunny bags (depending upon large rice exports), the value of which was Rs. 1,06,96,092 as against the total value of all imports from India amounting to Rs. 3,04,27,186 during the half-year, October, 1948—March, 1949. Next in the order of importance was cotton piecegoods, the imports of which were valued at Rs. 60,82,854. Imports of cotton thread and yarn were much smaller than before the war. Coal and hardware came next in the order of importance judged by the total value imported. The importance of hardware in the categories of imports from India was rather unprecedented. Groundnut oil and dried fish and prawns—items of food for the masses of population in Burma—came next in the order of importance. All of these commodities were of the nature of necessaries of life and were naturally purchased in the nearest market, although their prices were very high. We have seen that during wartime India had gained a foothold in the Burmese market in respect of certain manufactured consumer goods, viz. butter, paints, soap, rubber manufactures, paper and boots and shoes. In 1948-49 butter was undoubtedly a luxury in Burma. In paints India's share was much smaller as compared with the share of other countries. In soap the wartime position was maintained. In rubber manufactures foreign competition was evident, and India's share was about half of the total value of imports coming from other countries. In paper also India's position was worse than in wartime. Only in respect of boots and shoes had India's export market in Burma actually expanded as compared with the position in wartime. It should be noticed that India was exporting in 1948-49 a wider range of manufactured products than before the war, including not only the commodities just mentioned, but also glass and glassware, hardware, chemical and allied products, articles of clothing and cigarettes.[1] Increasing export of manufactured goods is one of the necessary consequences of the structural change in the Indian economy as the result of the Partition.

India's exports to Burma increased from Rs. 99.7 million in

[1] Reduction of the margins of preference favouring Indian goods imported into Burma to which India agreed under the General Agreement on Tariffs and Trade did not seem to matter much so far as the Indian market in Burma was concerned.

1948-49 to Rs. 139.3 million in 1949-50 and Rs. 218.9 million in 1950-51 as the result of further relaxation of import control in Burma.[1] India's imports from Burma decreased from Rs. 234 million in 1948-49 to Rs. 128.6 million in 1949-50 and thereafter improved to Rs. 187.8 million in 1950-51. Burma thus had a favourable merchandise balance of trade of Rs. 134.3 million in 1948-49 in relation to India, which was in keeping with the pre-war tradition. But the favourable balance was converted into an unfavourable balance of Rs. 10.7 million in 1949-50 and of Rs. 31.0 million in 1950-51—a violent shift which did not augur well for the stability of trade relations between the two countries.[2] It was clearly necessary to plan an increase of exports from Burma to India on the basis of a trade agreement. India's requirements of foodgrains and some of the industrial raw materials which Burma could supply made it necessary for India to achieve a better balanced current account position in relation to Burma.

With the emergence of a buyer's market and as part of India's export promotion programme during the post-war period, India has entered into trade agreements with a number of countries including Burma. The India-Burma Trade Agreement of 1941 which was designed to regulate trade between India and Burma in the context of wartime economic conditions was clearly unsuited to the changed circumstances of the two countries after the war. Burma as an independent and sovereign republic is now no longer bound by the economic, political, and financial ties which linked India and Burma to the British empire and incidentally also linked India and Burma together. She has not only been planning her economy in the national interest and trying to regulate the vested commercial interests of foreign capitalists, but she has also been redirecting her foreign trade into new channels in the best interests of the country. The adverse shift in the merchandise balance of trade of Burma in relation to India was clearly a trend which had to be taken care of by means of a planned adjustment of the foreign trade of the two countries. In the changed circumstances it was but natural

[1] *Journal of Industry and Trade*, August 1951, pp. 74-75.

[2] After February 1950, following the signing of contracts for rice, rice exports of Burma increased and Burma had an increasingly favourable overall balance of trade with all countries as a whole.

that the India-Burma Trade Agreement of 1941 should have been replaced by a new Agreement which was concluded on the 25th September, 1951. This Agreement is for a period of 5 years from 1951 to 1955. Its object is to "promote mutual friendship, economic co-ordination and trade between the countries." Under this Agreement Burma agreed to supply to India during the period 1st May, 1951 to 31st December, 1951, 240,000 tons of rice under specified terms of contract. The Government of India agreed to permit exportation to Burma of 25,000 tons of gunny bags, 10,000 tons of groundnut oil, 2,000 bales (400 lbs each) of cotton yarn and 3,000 tons of galvanised sheets. Burma agreed to permit an annual exportation to India during the period 1st January, 1952 to 31st December, 1955 of 350,000 tons of rice of which 230,000 tons shall be supplied on government-to-government basis.[1] India agreed to permit an annual exportation to Burma of a minimum of 15,000 tons of gunny bags, 8,000 tons of groundnut oil, 2,000 bales (400 lbs. each) of cotton yarn, and 4,000 tons of iron and steel products. In respect of the goods specified, the Government of each country is to issue licences freely on application up to the quantitative or monetary ceilings laid down in the Agreement according to each country's laws and administrative practices. Both countries agreed not to permit re-export of specified commodities except gunny bags used as packing material for Burma's exports. Each country offered to the other M.F.N. treatment as regards export and import facilities offered to countries of the soft currency area. Burma agreed to permit the exportation of gram and pulses, seed potatoes, lead, teakwood, etc. and India agreed to permit the exportation of a large range of manufactured products, viz., cotton piecegoods, hosiery, rayon piecegoods, coir manufactures, leather manufactures, rubber manufactures, electrical goods, chemicals, coal and coke, paper and paper manufactures, tea, spices, soaps and toilet requisites, fish, fruits and vegetables, provisions and oilman's stores, tobacco, and miscellaneous items. There is no doubt that the working of this Agreement will ensure expansion of mutually advantageous trade between India and Burma along lines which have emerged clearly after World War II.

[1] The price of rice is to be negotiated and settled on government-to-government basis in advance for each half-year.

CHAPTER 2

CEYLON

INDIA'S economic relations with Ceylon have followed the same broad pattern which we have noticed in the case of Indo-Burmese economic relations. The similarity of this pattern derives from certain similar features in the nature of the economies of Burma and Ceylon, both of which are tropical economies specialising in the production of a narrow range of agricultural or plantation products for export : paddy, teak, and petroleum and petroleum products in the case of Burma and tea, rubber, and coconut products in the case of Ceylon. Both have passed through a process of intensive colonial development since the end of the last century under the impact of foreign capital, enterprise, and skill and even foreign mining or plantation labour. Both have developed a similar reflex in their attitude to foreign economic enterprise. And after independence both have been trying to foster diversification of economic activities through the development of secondary industries by means of State enterprise (in the case of Ceylon also increasing production of food) and to ensure that benefits of economic development and prosperity are equitably shared by the indigenous inhabitants of these countries. As a matter of fact, one notices identical economic policies. For example, there is the same reliance on taxation of foreign trade, enterprise and profit as a source of development finance, the same emphasis on public savings as a substitute for private savings, and the same insistence on State enterprise, protection of domestic industry and safeguarding of domestic employment and the standard of living. This seems to be a pattern common to countries of South-East Asia which are now free to direct their economic life. It is, therefore, clear that in Ceylon, as in Burma, Indian labour and commercial enterprise will have to adjust themselves to the changed circumstances ; but there is no reason to imagine that there will be any disturbance in the economic relations based on mutually advantageous trade between the two countries.

Ceylon is climatically divided into three clearly marked divisions:

(1) the low country which is the centre of the coconut industry, and in certain areas of which some amount of tea and rubber is grown; (2) the middle country which is primarily the rubber-growing area; and (3) the higher elevations which constitute the tea-growing region. The national income of Ceylon depends primarily on these three agricultural industries. In fact, coconut products, rubber and tea have accounted for 90 per cent of Ceylon's national income derived from exports. Subsidiary agricultural products are cinnamon, citronella, and cocoa. Rice, the staple food of the people, is cultivated on an area ranging between 912,000 and 918,000 acres or 27.6 per cent of the total cultivated area of the island; but home-grown rice meets about one-third of the total requirements of rice. Mining is largely confined to the extraction of plumbago (graphite) and semi-precious gems.

Colonial economic development in Ceylon has been based on the expansion of plantation agriculture. During the year ending 31st March, 1950, the total area under tea cultivation was 555,576 acres, of which estates accounted for 491,780 acres and small holdings accounted for only 63,796 acres. In 1947 about 80 per cent of the tea estates were owned by either European proprietary planters or sterling companies or rupee companies. After independence about 5 to 10 per cent of the estates have been bought by Ceylon inhabitants mainly due to the fact that the Ceylon Government has insisted upon increasing substitution of Ceylon nationals for foreign nationals employed in the estates.[1] In rubber cultivation also plantation agriculture predominates, though not to the same extent as in tea cultivation. There are 5,181 estates in the size group of 10 acres to 100 acres, 658 estates in the size group of 100 acres but below 500 acres, and 215 estates of 500 acres and over. Of the total acreage under rubber cultivation in 1949, 58 per cent was owned by the Ceylonese, 39 per cent by Europeans, and the remaining 3 per cent by other nationalities. Coconut cultivation is of a more dispersed character, but there are about 920,000 acres of land in low country which are

[1] There has been considerable repatriation of foreign capital in Ceylon. Recent returns show that in 1939 resident individuals and companies produced 69.9 per cent of the total income, non-resident individuals and companies earned 27 per cent. In 1948 the corresponding percentages were 80.5 and 17.6 respectively. The number of non-resident individuals paying income-tax has decreased from 3,792 to 3,219 and the number of non-resident companies has decreased from 598 to 585. (Cf. *The Ceylon Economist*, Vol. 2, No. 2, p. 131).

planted exclusively with coconut. There is regular plantation agriculture on larger estates with ploughing and disc-harrowing. Paddy cultivation, on the other hand, is based on small, undersized holdings which on the average do not exceed 1¼ acre, while terraced cultivation is practised on holdings of less than one acre. 60.8 per cent of the holdings are on the basis of full ownership of land by the cultivators, and as much as 26 per cent is on the basis of share-cropping.

Plantation agriculture in Ceylon has made rapid strides not merely on the basis of foreign capitalistic enterprise in the organisation of both production and marketing, but also on the basis of foreign estate workers. The largest single occupational group in Ceylon is that of workers on tea estates. The majority of them are immigrants or descendants of immigrants from South India. The employment of Indians on tea estates has increased since 1946. In 1950, 406,275 Indians were employed in the tea estates, against 88,711 Ceylonese workers. As we have said, 58 per cent of the total area under rubber cultivation was owned by the Ceylonese in 1949. The proportion of Ceylonese employed in the rubber estates has always been higher, and the number now equals that of Indian workers. In 1946 there were 729,600 Ceylon *Tamils*, 784,700 Indian *Tamils* and 42,100 Indian Moors in Ceylon out of the total population of 6,657,300 persons. In other words, Indians formed about 23 per cent of the total population, and as workers in estates they were an important element in two of the most remunerative occupations of the country. We must not forget that the increase of population in Ceylon at the present rate of 3 per cent per annum has been creating a grave problem of providing larger employment opportunities for the indigenous inhabitants—a problem which tends to accentuate economic conflict between Indians and Ceylonese, particularly when raw material prices show a declining trend, as in the 'thirties. There is naturally a tendency to preserve or expand employment for the Ceylonese on the short-term basis through the policy of "Ceylonisation" and on a long-term basis through the development of agriculture, land reclamation, and fostering of cottage industries and secondary industries.

Unlike the staple exports of Burma, Ceylon's staple exports—tea, rubber and coconut—are not such as to find a wide market in India. Ceylon and India (in the present stage of India's

industrial development) are complementary economies to a much less extent than Burma and India. In respect of tea India and Ceylon are competitors. Industrial development in India has not reached a stage where she will need any significant import of rubber from Ceylon or will be able to offer the high prices offered by competitive consumers of rubber. Ceylon's coconut oil and copra were mainly required by the growing Indian soap industry. But coconut products have recently ceased to figure in India's imports from Ceylon. India has been developing her own sources of raw materials for her staple industries, including the soap industry, and such rubber manufactures as have been developed. Even otherwise, India is not sufficiently advanced industrially to consume in bulk the raw materials of Ceylon (or, for the matter of that, of similar tropical countries). India's staple exports, like raw jute, tea, oilseeds, minerals, etc. cannot possibly be consumed in an industrially undeveloped agricultural economy. The only commodities for which there is a sizable market in Ceylon are piecegoods and jute manufactures and a variety of miscellaneous manufactured products. In respect of fertilisers, capital goods for plantation agriculture and manufactured consumer goods which Ceylon needs, the bulk of the import demand of Ceylon is met by the U.K. and other advanced industrial countries. On the whole, the total value of Ceylon's exports to India has been generally much less than the total value of India's exports to Ceylon. Another noticeable trend is the narrow range of commodities which account for the bulk of the total value of Ceylon's exports. Thus in 1948 arecanuts, copra, and coconut oil accounted for 74 per cent of Ceylon's domestic exports to India; other important items were unmanufactured tobacco, rubber, fresh and desiccated coconuts and citronella oil. India's exports to Ceylon in 1948 were relatively more diversified, although manufactured products accounted for 50 per cent of total exports.

The composition and values of India's imports from Ceylon under each principal head are set out in the comparative table on p. 57 to bring out the contrast between the situation before World War I and the situation prevailing during World War II :

VALUE OF PRINCIPAL IMPORTS FROM CEYLON
(Thousands of Rs.)

Commodities	1909-10 to 1913-14 Average	1942-43	1943-44	1944-45
Grain, pulses and flour (re-exports)	12	27	25	13
Raw hides and skins ...	3,43	6,37	4,02	1,31
Gunny bags (re-exports) ...	7,62	2,27	5,26	1,81
Machinery (re-exports) ...	1,36	2,32	2,04	1,06
Metals	1,41	1,10	2,91	3,10
Oils	45	43,00	95,15	72,94
Rubber	10	8,18	99	28
Seeds	91	2,23,84	1,19,57	1,44,33
Spices	29,91	62,46	68,47	84,81
Tea	7,10	51,71	2,14	77
Others	20,12	35,57	49,68	53,72
Total Imports	72,53	4,37,09	3,50,48	3,64,26
Percentage increase above 1909-10 to 1913-14	100	602	477	502

Till the outbreak of World War II, Ceylon's share of India's total imports never exceeded 2 per cent. Excepting for the years of World War I, till 1931-32 Ceylon's share hardly rose above 1 per cent. In 1942-43 it reached the peak level of 4 per cent and then gradually declined to 3 per cent in 1943-44 and 1.8 per cent in 1944-45. 1942-43 was the most disastrous year of the war for the Allied Nations, and even in the face of the blocking of the trade routes due to enemy bombing of allied shipping in the Mediterranean Sea and the Atlantic Ocean, Ceylon's share in India's imports reached barely 4 per cent.

Certain changes in the composition and relative importance of India's imports from Ceylon are discernible when we compare the situations before and after World War II.

PRINCIPAL IMPORTS INTO INDIA AND PERCENTAGE OF INDIA'S SHARE IN CEYLON'S TOTAL EXPORTS UNDER EACH HEAD

Description	Percentage 1935	Percentage 1950
Copra	75	40
Fresh coconut	37	Negligible
Arecanuts	85	80
Unmanufactured tobacco ...	100	100
Skins, dressed and undressed ...	72	29

During the depression of the 'thirties India's share of some of the principal exports of Ceylon was fairly high. India absorbed

75 per cent of exports of copra, 37 per cent of exports of fresh coconuts, 85 per cent of arecanuts, the entire exports of unmanufactured tobacco and as much as 72 per cent of hides and skins. In 1950 the situation was radically different, except in the case of unmanufactured tobacco, the entire exports of which were still being consumed by India.[1]

It would be interesting to study the trends in respect of the principal commodities. Before World War II copra was an important commodity imported from Ceylon. In 1938 copra formed 54.1 per cent of the island's domestic exports to India. The percentage dropped to 34.3 in 1947 and 23.3 in 1948.[2] From July, 1948, Ceylon was free to sell her copra to the highest bidder in the rising international market, and the Commissioner of Commodity Purchase in issuing permits for exports of coconut oil and copra took care to see that copra was sold at the highest possible price. The difference between the high free market price and the contract price[3] offered to the U.K. (under the bulk purchase agreement) was subject to a 98 per cent duty for the benefit of the government revenue. Since India's negotiations for the purchase of oil and copra under contract failed, India had to buy copra in the free market. But free trading in copra pushed up the price from Rs. 650 per ton to Rs. 1,240 per ton in March, 1951, and consumers of Ceylonese copra in India had to pay abnormally high prices.[4] As regards fresh coconuts, India's share in Ceylon's exports which was 37 per cent in 1935 has been reduced to a negligible proportion for various reasons. During the war export quotas were imposed on fresh coconuts to encourage production of the processed products, viz., copra and coconut oil. After the war high international demand for fresh coconuts pushed up prices from Rs. 100 per thousand in September, 1948, to Rs. 500 per thousand in 1950. The Commissioner of Commodity Purchase,

[1] Ceylon tobacco grown mostly in Jaffna is exported to India and is mostly consumed for chewing with betel leaves.

[2] The decline in India's share is mainly explained by the fact that after Partition undivided India's share has to be split up into Pakistan's share (44 per cent in 1950) and India's share (40 per cent in 1950).

[3] The contract price was the guaranteed price of Rs. 150 per candy. Later there was a revision of the arrangement whereby the price obtained by the primary producer was dependent upon the world market price.

[4] Ceylon's market for copra and coconuts is a fluctuating one and the principal destinations seem to change from year to year. Exports go to countries which are prepared to pay high prices for Ceylon's high-quality products.

who was responsible for exports of fresh coconuts, found a golden opportunity for regulating exports to obtain the maximum price advantage.[1] In this case also abnormally high prices reduced India's import demand.[2]

In arecanuts India had a near-monopoly of consumption of Ceylon's exports in 1950, as in 1935, although there was a decline of 5 per cent in India's share of Ceylon's exports of arecanuts. In unmanufactured tobacco India's specialised demand (as in the case of arecanuts) has maintained complete monopoly of consumption. In hides and skins there has been diversion of exports to other markets between 1935 and 1950. India's place in 1935 is now occupied by the U.K. which consumed 69 per cent of the total value of exports in 1950, as compared with India's share of 29 per cent. In this case also prevailing high prices in the world market have had a restrictive effect on Indian consumption.

From the point of view of India principal imports which account for 93 per cent of total imports from Ceylon were the following in 1948 :

Cononut oil	29.3 per cent
Copra	23.3 per cent
Arecanuts	21.4 per cent
Tobacco (unmanufactured) ...	7.5 per cent
Rubber	3.5 per cent
Fresh coconuts	3.3 per cent
Citronella oil	2.7 per cent
Desiccated coconuts	2.1 per cent
	93.1 per cent

Altogether, this is a narrow range of commodities of which only arecanuts and unmanufactured tobacco cater for the specialised demand of Indian consumers, while the rest are commodities for which at prevailing high prices the Indian demand is uncertain and comparatively unresponsive.

The composition and values of India's exports to Ceylon under each principal head are set out in the comparative table (p. 60).

[1] Increase of exports created a crisis in the coconut-milling industry. Hence the high profits on foreign sales were utilised for subsidising coconuts for local consumption on the principle of a two-price system which discriminated in favour of the domestic consumer of coconuts.

[2] Exports in 1948 were increasingly diverted to the Middle East. The U. K. was the principal destination for the exports of Ceylonese coconuts in 1950.

Value of Principal Exports from India to Ceylon
(Thousands of Rs.)

	1909-10 to 1913-14	1942-43	1943-44	1944-45
Animals, living	18,40	15,21	23,53	27,80
Coal and coke	43,39	29,74	13,81	7,19
Coffee	5,76	11,62	35,29	9,50
Cotton manufactures	36,03	3,12,29	5,06,98	8,12,84
Fish (not canned)	24,39	72,74	1,50,18	2,12,71
Fodder, bran etc.	1,78	5,15	6,61	2,44
Fruits and vegetables ...	13,55	77,29	76,77	1,29,21
Rice (not in husk)	4,26,72	3,59,18	56,63	32,83
Other grain and pulses	48,80	97,55	1,33,51	83,56
Jute goods	5,41	29,89	8,56	17,84
Manures	10,87	13,44	10,08	11,65
Oilcakes	38,54	61,28	14,90	41
Provisions	5,45	9,81	30,00	20,63
Raw rubber	14,15	35	—	—
Seeds	12,21	34,70	45,47	34,06
Spices	15,31	46,61	50,61	50,62
Tea	26,90	6,31	16,53	41,18
Wood and timber	2,32	63	70	68
Other articles	52,37	5,56,68	2,56,74	4,23,75
Total	8,02,35	14,43,37	14,33,90	19,17,74
Percentage increase above 1909-10 to 1913-14	100	179	178	239

In 1900-1 Ceylon's share in India's total exports was 4.6 per cent. Till World War I, it never went below 3.1 per cent (1903-4). The modal average for this period of 13 years was 3.7 per cent. After 1937-38 Ceylon's share increased continuously and the increase was accelerated when South-East Asia was overrun by the Japanese Army. During wartime Ceylon's share reached the highest percentage ever recorded since the beginning of the present century, viz., 7.7 per cent in 1942-43, when Ceylon seems to have relied more on the nearest source of supply owing to the virtual blocking of the normal trade routes.

India's principal exports to Ceylon in 1950 may now be compared with principal exports in 1935 in order to assess the changes that have occurred in the relative importance of various types of goods.

PRINCIPAL EXPORTS FROM INDIA TO CEYLON
(Value in Rs.)

Categories		1935	1950	Increase
1. Food, Drink and Tobacco	...	28,306,234	48,668,716	20,362,482
2. Raw materials and articles mainly unmanufactured	...	6,934,060	21,530,365	14,596,305
3. Articles wholly or mainly manufactured	...	9,015,233	111,055,868	102,040,635
4. Animals not for food	...	71,592	14,130	57,462
Total	...	44,327,119	181,269,079	137,086,884

A very clear trend which has emerged in the course of 15 years between 1935 and 1950 is not so much the increase in the aggregate value of India's exports to Ceylon as the tremendous increase in the total value of wholly or mainly manufactured exports. Of the total increase of Rs. 136,941,960 in the value of India's exports to Ceylon an increase of as much as Rs. 102,040,635 is accounted for by the increase in the value of exports of India's wholly or mainly manufactured products.[1] This is a significant trend which is in keeping with India's new position after Partition as an economy which depends for its stability upon an increasing proportion of imports of food and raw materials and an increasing proportion of exports of manufactured products.

An analysis of the changes in the composition of India's exports to Ceylon may now be attempted with special reference to principal comparable exports in 1935 and 1950 respectively.

PRINCIPAL EXPORTS AND INDIA'S PERCENTAGE SHARE IN CEYLON'S IMPORTS

Principal exports.		Percentages 1935	1950
1. Rice	...	18	—
2. Other grains	...	51	—
3. Bran and pollard	...	82	—
4. Qingelly poonac	...	99	100
5. Goats and sheep	...	94	100
6. Butter	...	8	—
7. Chillies	...	95	30
8. Other currystuffs	...	56	27
9. Eggs	...	93	98
10. Cured fish	...	65	44
11. Onions	...	99	68

[1] In the case of principal commodities there was an increase in unit values of exports (with the exception of cotton piecegoods) combined with an increase in the quantity exported during 1949.

Principal exports	Percentages 1935	1950	
12. Potatoes ...	38	—	
13. Raw cotton ...	68	—	
14. Jaggery and unrefined sugar	65	54	
15. Other tobacco manufactured, including *bidis* and cigars	80	99	
16. Coal ...	31	89	
17. Vegetable oils ...	54	93	
18. Rubber ...	74	—	
19. Manures ...	39	—	
20. Tiles ...	78	92	
21. Non-ferrous metals and metalware (brass, copperware and tea lead) ...	22	15	
22. Cotton piecegoods ...	30	49	
23. Textile manufactures, mixed	69	32	(mixed with less than 50 per cent by weight of other material)
24. Silk manufactures and satin	27	43	
25. Art silk ...	55	17	
26. Jute hessians ...	98	99	
27. Gunny bags ...	100	84	
28. Other boots and shoes ...	20	34	
29. Chemicals, not elsewhere specified ...	13	10	(drugs)
30. Printed books ...	60	57	
31. Cinema films ...	39	45	
32. Haberdashery ...	14	—	

Before the war a food-importing country like Ceylon used to import a fair proportion of foodstuffs from India. After Partition India has become a food-importing country herself. Hence it is easy to see why India's exports to Ceylon of rice, other grains, bran and pollard, butter and potatoes have disappeared from the export categories.[1] As India is short of manures and raw cotton, exports of manure and raw cotton are no longer possible. Exports of jaggery and unrefined sugar are also not possible due to high internal prices and domestic shortages. But certain categories of subsidiary foodstuffs have maintained their relative importance in the Ceylonese market. In respect of gingelly poonac[2] and goats and sheep, Ceylon's entire requirements are now met by India. India's proximity to Ceylon has given India an export advantage over Australia in respect of a perishable commodity like eggs. In regard to certain other kinds of subsidiary foodstuffs India's exports have lost ground. Owing to India's proximity to Ceylon Indian chillies can be more cheaply transported than Pakistan chillies. But under the

[1] In respect of foodgrains, bran and pollard there are now export restrictions.

[2] Until recently there were export restrictions in respect of this commodity.

Agricultural Products Regulation Ordinance importers in Ceylon have to buy a certain quality of local ,produce before they can obtain an import licence for chillies. In 1950 Indian chillies were also replaced by cheaper chillies from Thailand. The decline in India's share in 'other currystuffs' is explained by increasing competition and high prices of Indian products. Thus India lost ground in cummin seed to Iran, in garlic to China until 1949, and to Morocco in *mathe* seed. The total value of exports of Indian turmeric declined owing to a fall in price, though the total quality increased. In onions there has been a decline in India's share of Ceylon's imports from 99 per cent to 68 per cent, and in cured fish the decline has been from 65 per cent to 44 per cent. India's main competitors for the supply of onions are Egypt and Syria which supply the larger variety, although the Ceylonese prefer the smaller Indian red onions which are, however, dearer. In the field of cured fish India's share has declined owing to the emergence of Pakistan as a competitor, Aden being the other competitor. The only other principal commodity in the category of "food, drink and tobacco" is manufactured tobacco including *bidis* and cigars. After the devaluation of the Ceylonese currency tobacco imported from the U.S.A., India's principal competitor, became more expensive and was replaced by the Indian product. In 1950 the U.S.A. slightly improved her position. But India has always been the sole supplier of *bidis* which are smoked by the masses of the population in Ceylon as in India.

In the category of "raw materials and articles mainly unmanufactured" coal is a principal commodity of which India now is the main supplier. Except for a few shipments of coal from South Africa early in 1950 there is no competition in this field. India has also increased her share in Ceylon's imports of vegetable oil (castor oil, groundnut oil, and linseed oil) from 54 per cent to 93 per cent. This is mainly due to the phenomenal progress of the vegetable oils industry in India in recent years. Export restrictions and high prices, which stimulate the use of substitutes in Ceylon's local soap industry, are the important limiting factors in this field of trade. In respect of tiles India is practically the only supplier, and the limiting factors are high prices ruling in India and the possible competition in the near future of locally made tiles. India's share in imports of non-

ferrous metals and metalware is naturally low (15 per cent) in view of the domestic shortage.

It is necessary to mention in this connection certain categories of goods which were exported from India to Ceylon in 1950, but not in 1935. First, we must mention (1) brass and alloys of copper including locks, stoves, washers, hinges, nuts, window fittings, chains, curtain rods, padlocks, bells, etc. ; (2) agricultural machinery ; (3) electrical machinery ; (4) oil-pressing and refining machinery and tea machinery and (5) miscellaneous machinery. The total value of exports under each head is quite small as compared with the total value of imports of each into Ceylon. But they are a pointer to the possibilities of expansion of India's exports of intermediate and capital goods to Ceylon. India has also been supplying to Ceylon in recent years a small amount of asbestos sheets, tanks and drums, iron and steel manufactures and cement. An important new line of Indian exports to Ceylon is hollowware, including household, kitchen and cooking utensils, either tinned or enamelled or made of aluminium. Mention should also be made of bonemeal and other fertilisers.[1]

In the category of manufactured consumer goods, cotton piecegoods are the largest single item of India's exports to Ceylon. Owing to the liberal export policy adopted by the Government of India and the increasingly strong competitive position of India in relation to the U.K., Japan and the U.S.A., Indian exports reached a peak in 1950 and accounted for 44 per cent of India's total exports to Ceylon.

In 1950 imports of printed American textiles into Ceylon sharply declined in consequence of the rise in prices due to currency devaluation and restrictions on dollar imports. The gap was filled by India and by Japan to a small extent. Dyed goods (mostly handloom piecegoods) imported from India formed nearly 61 per cent of India's exports of cotton textiles to Ceylon during 1950. With the relaxation of control on dollar imports and the increasing competition of Japan, the exports of Indian cotton textiles to Ceylon are likely to be reduced in future.

India is losing ground in artificial silk, although in silk goods the position has improved considerably as compared with the

[1] Including horn and hoof meal, animal meal, *Mowah* case, etc.

pre-war position. Towards the end of 1949 Ceylon relaxed import control on artificial silk and reduced the general rate of duty from 90 per cent *ad valorem* to 25 per cent and the preferential rate from 60 per cent to 15 per cent. While imports increased by 7 million yards in 1950, India's share actually declined by more than 1 million yards. Japanese goods are becoming more and more popular, and Japan is most likely to establish a strong foothold in the Ceylonese market.

In 1950 India supplied Ceylon with grey cotton yarn of the total value of Rs. 509,701 out of the total imports into Ceylon from all sources of Rs. 521,192. Grey yarn is used in Ceylon's handloom cottage industry. There were no imports of grey yarn from India in 1949, and this was a new line of Indian exports to Ceylon. Woollen and worsted blankets were another new category which did not figure in 1935.

In recent years India has commanded a fairly wide market in Ceylon for canvas rubber-soled boots and shoes. Both Japan and Malaya, however, have now become serious competitors of India. Besides, a local factory with local enterprise has started production of canvas. Moreover, the starting of a subsidiary factory of the Batas in Ceylon will obviously restrict the export of canvas shoes from India, because the Batas also manufacture canvas shoes in India.

Other varieties of Indian boots and shoes have commanded a much larger share of Ceylon's market between 1935 and 1950. Indian boots and shoes are the cheapest among the imported varieties, although more expensive varieties of better quality come from the U.K. and Czechoslovakia. India supplies Ceylon with large quantities of ladies' fancy shoes and also sandals.

India exports to Ceylon chemical manufactures, but the values involved are negligible. Only in the case of 'other drugs', including quinine preparations, India's share of Ceylon's total imports in 1950 was 10 per cent. One other commodity which did not figure in the list of principal commodities in 1935, but the exports of which to Ceylon have increased in recent years, is rubber manufacture.

As already said, Ceylon's national economic planning is now based on the development of secondary industries which is linked

up with hydro-electric development. A textile spinning and weaving mill operating on imported cotton to start with, and consuming home-grown cotton later, when cotton-growing expands, has now been planned, and handloom production is being also stepped up to make the country less dependent on foreign imports and also to create more employment opportunities. Similarly, a factory for the manufacture of iron and steel products, a cement factory, a paper factory, and an oil-processing project are calculated to initiate the much-needed process of development of secondary industries. The development of existing industries in Ceylon is being fostered by protection afforded by the *Industrial Products Act of 1949.* Under this Act the Government specifies the ratio for determining the quantity of the local product which an importer must buy at specified prices for specified grades before he can get a licence to import a given quantity of the "regulated product". The "regulated products" now are cotton textiles, glass tumblers, chimneys and bottles, panels and plywood, wooden chests for packing, earthenware, leather and rubber goods, rolled steel sections, lace, brass manufactures, ink, paints, varnish and dried fish. As some of these products are also some of India's principal exports, India's export trade with Ceylon in these products is likely to be restricted as domestic production expands in Ceylon.

But industrial development in Ceylon will be a slow process, and there is no reason in any case to imagine that Indian exports cannot be adapted gradually to the requirements of Ceylon's developing economy. The expansion of Indo-Ceylonese trade during the last 50 years and the changes in the composition of trade which have occurred during this period, particularly after the structural change in India's economy as the result of Partition, show clearly how economic development both in India and Ceylon is not inconsistent with the growth of mutually advantageous trade.

We shall now turn to certain other aspects of the trade and financial relations between the two countries in recent years. First, we must refer to the trade agreement covering the calendar year 1950. This agreement provided for exchange of essential goods between the two countries. The quantitative quotas of principal commodities on either side were larger than the actuals of

trade in these commodities in 1949. There was natural anxiety on the part of Ceylon to reduce the gap between the total value of India's exports to Ceylon and the total value of India's imports from Ceylon. This objective could not be achieved if one takes into account the character of trade between the two countries. So long as trade is confined to essential categories, triangular or multiangular settlement of Ceylon's international payments could take care of Ceylon's adverse balance of trade in relation to India. Under the agreement an understanding was reached between the two competing sellers of tea with regard to bulk purchase agreement with the U.K., re-export of bulk-purchased tea by the U.K. and the international tea-marketing organisation. There is no doubt that this trade agreement was conducive to expansion of trade between India and Ceylon in 1950. Reference may next be made to the Indo-Ceylon Trade Agreement which was concluded towards the end of 1951 and covered the period 1st January, 1952 to 31st December, 1952. This Agreement resolved certain outstanding problems affecting the trade between India and Ceylon. Its main object was to secure balanced trade under the licensing systems prevailing in the two countries. The schedule relating to exports from India to Ceylon covered 58 items including coal, jute goods, chillies, onions, cotton yarn, crushed bones and bone grist, jaggery, cotton textiles (mill-made and handloom), mixed piecegoods, broadcloth and art silk, blankets, firebricks, sports goods and toys, Indian drugs and medicines, electrical goods and apparatus, rubber manufactures, coal-tar dyes and colours, tiles, *bidis,* etc. It will be noticed that the schedule contained items of which India had been a principal supplier throughout, with the exception of drugs and medicines, electrical goods, dyes, firebricks and sports goods and toys which India was in a position to supply. The schedule of exports from Ceylon to India consisted of 12 items including copra and coconut oil, (in respect of which the position was uncertain in recent years), hides and skins, graphite, betelnuts, unmanufactured tobacco, rubber and lunumidella logs. India agreed to put fish preservative on the open general licence and to waive the need for the licensing of barrels imported from Ceylon except on first entry. This was designed to foster the salt fish trade between the two countries. The Ceylon Government reciprocated by reducing the import duty on handmade towels from 60 per cent

to 15 per cent and also by giving an export quota of 1,500 tons of catamaran logs required for the building of country-craft.

A notable event in the history of economic relations between India and Ceylon was the passing of Ceylon's *Currency Law Amendment Act No. 40 of 1949* which had the effect of delinking the Ceylon rupee from the Indian rupee and fixed the gold content of the Ceylon rupee at 2.88 grains of fine gold. But the sterling link of both the rupees at 1 rupee = 1s. 6d. and an equal measure of devaluation which both the rupees underwent kept them on par with each other. The result was that the Indian market in Ceylon expanded at the expense of non-sterling countries. At the same time Ceylon's contribution to the strengthening of the gold and dollar reserves of the sterling area was an indirect advantage to India after 1949 and during the period of the commodity boom of 1950-51.

It is necessary to discuss in conclusion the balance of trade problem which has caused not a little anxiety to Ceylon. In view of the character of trade between the two countries—the narrow range of Ceylon's exports which India in the present stage of industrialisation can increasingly absorb, the high prices of, and the intense competitive demand for, Ceylon's export staples, and the wide range of goods which India can supply in a price market like Ceylon—India has traditionally had a fairly large favourable balance of trade in relation to Ceylon. But this has been always balanced against the still larger export surplus which Ceylon has always had in relation to highly industrialised countries like the U.K. and the U.S.A. The position is set out on page 69.

It appears that throughout these years, with the exception of 1947, Ceylon's import surplus in relation to India was more than offset by Ceylon's overall export surplus, leaving a sizable export surplus which paid for invisible debit items in the balance of payments characteristic of a colonial economy (interest, payments for shipping, banking and insurance services, amortization on loans, earnings of capitalistic enterprise, other remittances, etc.). In 1947 relaxation of import controls, combined with the backlog of demand, created an overall deficit in the balance of trade. But the situation was rectified to some extent in 1948 after Ceylon's independence. But till devaluation and the subsequent commo-

Value in Lakhs of Rupees

	Exports (from India)	Imports (from Ceylon)	India's balance of trade (favourable + unfavourable —)	Ceylon's overall balance of trade.
1938	513	90	+ 423	+ 493
1939	522	107	+ 415	+ 857
1940	760	151	+ 609	+ 1043
1941	1003	251	+ 752	+ 1366
1942	1374	402	+ 972	+ 2568
1943	1855	352	+ 1503	+ 1469
1944	1929	270	+ 1659	+ 1799
1945	1673	250	+ 1423	+ 741
1946	1627	355	+ 1272	+ 1626
1947	1267	347	+ 920	— 734
1948	1255	200	+ 1055	+ 172
1949	1475	260	+ 1215	—
January-September, 1950.	1292	1173	+ 119	—

Source : *The Reserve Bank of India Bulletin*, August, 1950.

dity boom after the outbreak of the Korean war, the balance of payments situation of Ceylon caused anxiety. There are clear signs of a recession in commodity prices. Ceylon, therefore, has to seek a better balanced current account position in relation to India, although it is obvious that a bilateral adjustment of trade between India and Ceylon is neither possible nor desirable. This would require increasing absorption by India of Ceylon's rubber, copra, and coconut oil at reasonable prices.

CHAPTER 3

MALAYA

INDIA'S economic relations with Malaya, as with Burma and Ceylon, developed in the context of expansion of British commercial and political enterprise in South-East Asia. India was a base of operations for this expansion. The history of the development of the free ports of Penang and Singapore is a saga of British enterprise. But the British were aided by the Chinese and Indian enterprise which participated in the production and trade of a rich tropical peninsula.

Penang was acquired primarily as a naval base, but as a free port it activated productive enterprise in the rich agricultural hinterland. Such land as could be cleared by settlers was allowed to be occupied with a promise of title, so that the Penang hinterland attracted to itself a large and varied population. Singapore was ceded to the British in 1824. In the case of Singapore also the policy of free trade and encouragement of settlers attracted people of many races, above all, the Chinese, the descendants of whom were the pioneers of Chinese immigration into Malaya towards the end of the nineteenth century.

The second half of the nineteenth century was the period of annexation of many undeveloped areas of the world by the powerful European nations. The British followed a policy of more active intervention in the affairs of Malaya, and one important reason, among others, which explains this policy was the driving power of foreign capital, either European or Malayan Chinese, which was attracted by the potential mineral wealth of the hinterland as evidenced by the rich tin-fields. Towards the end of the nineteenth century new rich tin-producing areas were developed and improved methods of tin-extraction were introduced in existing tin-producing areas. Para rubber was first planted in Malaya also towards the end of the nineteenth century. To these remarkable mining and plantation enterprises Chinese and Indian labourers under European and Chinese capital made a notable contribution.

Between 1900 and 1910, 479,626 Indians, mostly labourers, arrived in Malaya, and 256,549 left Malaya, leaving a net balance

of 223,077 in that country. Most of them were pioneers in the clearing of jungle, reclamation of swamps, and planting of rubber. Indians have no doubt largely migrated back and forth, but there is now a settled Indian population, largely urban, which is engaged in commercial activities (30 per cent of Indians were recorded as living in urban areas in 1931).[1]

Like the Burmese and the Ceylonese, the Malay has not taken kindly to commerce and industrial enterprise and has also shown a reluctance to work for wages, though the trend has been reversed in recent times and there is greater Malayan enterprise in trade and mining. By and large, the Malays are employed mainly in agriculture and fishing and are small growers of rubber and coconuts.[2] The tradition of (and preference for) land ownership is a persistent one in Malaya. The Chinese specialise in retail trade, in industrial work as artisans or factory hands and also in office work and urban pursuits of various kinds. They, therefore, form the bulk of the urban population in Malaya, and a large number of them are employed in the mining industry and the rubber manufacturing industry as skilled or unskilled workers. South Indians are employed mainly on rubber estates in which they form the bulk of the labour force. A large number of Indians are also employed on the railways and in the Public Works Department.

Taking the major elements of the Malayasian population, out of a total of 5,291,708 persons 2,602,777 were Malayasians, 2,034,986 were Chinese and 5,78,292 were Indians and Pakistanis in 1950. In Singapore the total population in 1950 was 1,034,844 of which 801,504 were Chinese, 126,843 were Malayasians and 74,477 were Indians and Pakistanis.[3] The proportion of each community in the total population has not changed since the second World War.

The economy of Malaya is a typical colonial economy characterised by concentration on the production of tin and rubber as principal products for export. The prices of these raw materials

[1] There was a total ban on the emigration of unskilled labour from India in 1938.

[2] In the Straits Settlements Indians were a majority as labourers in coconut cultivation in 1931. Under the law of Malayan Land Reservation rice land cannot be alienated to Indians and the Chinese.

[3] In 1931 one out of ten Indians in the Malayan Federation was resident in Singapore.

are subject to wide and simultaneous fluctuations over periods of booms and depressions, and consequently, the national income derived largely from exports is equally liable to violent fluctuations except in so far as they are mitigated by international commodity control agreements. Malaya together with Singapore has a large *entrepot* trade which includes trade with the neighbouring countries of Thailand, Borneo, Sarawak, French Indo-China, Indonesia, Burma, and Hongkong. Although the volume of this trade is large enough to be an important source of Malaya's national income in normal times, the part of the income derived from this source has obviously a fluctuating character in view of the fact that this group of countries consists of competitive economies with concentration on a few typical, though strategically important, tropical raw materials, the demand for which depends on the hazards of industrial activity in the countries of the European and American continents. According to a recent estimate, the *per capita* national income of Malaya decreased from £ 64 in 1947 to £ 63 in 1948 and £ 58 in 1949. The raw material boom after 1950 sent it up to £ 90.

A free trading economy geared to free private enterprise, like that of Malaya, naturally operates on the basis of minimum controls. This has created a serious problem of post-war inflation reacting adversely on the cost of living of small peasants, salaried workers and estate workers. The boom of 1950 no doubt lessened the economic strain on the bulk of the population. But an economy which makes for so much of insecurity of income and/or employment for the majority of the population and tends to enrich the mercantile class, the plantation owner and the mining *concessionaire* proportionately more, taking good times with bad, cannot be regarded as a stable economy particularly in an unstable world.

As in Burma and Ceylon, Indians have occupied not a negligible place in Malaya's economy. As estate workers, Indians in Malaya's rubber plantations contribute substantially to the prosperity of a branch of production which accounted for more than sixty per cent of the total export income. In 1938 Indians formed over one-half of the total estate labour force in Malaya. (Owing to the ban on the emigration of unskilled labour from India in 1938 the proportion declined. After the second World War there has been an increasing substitution of Malay and Chinese labour for Indian

labour.) In 1947, 17,024 Indians were employed in 'Transport and Communication', 178,178 in agriculture, 4,342 in mining, 22,459 in commercial and financial occupations, 17,471 in personal service, and the rest in practically all occupations recorded in the census, though in very small numbers. In 1931 Indians were the largest racial group as railway locomotive drivers, railway workers, money-lenders, pawn-brokers, money-changers, and gate-keepers and watchmen. Indians were numerically insignificant as owners and managers of rubber estates and tin mines.

Indian capitalistic enterprise in Malaya is not, however, so significant relatively to the British, American, or Chinese capitalistic enterprise. If we take the capital of companies incorporated outside the Federation of Malaya and having offices and interests in the Federation at the end of 1949, the capital invested in the rubber estates was $ 748.9 million of which the share of U.K. companies was $ 331.4 million and that of Hawaii $ 320.2 million. Similarly, U.K. and U.S.A. capital ($ 93 million and $ 53.4 million respectively) accounted for the bulk of the total capital of $ 164.9 million invested in tin mines and dredges. Indian capital was invested in trade to the extent of $ 18.4 million, as compared with $ 150.9 million invested by British commercial firms and $ 80.1 million by American business firms. In 1931 Indians were second in importance to the Chinese as proprietors and managers of businesses. Indians, mostly *chettiars* of South India, predominated as money-lenders, pawn-brokers and money-changers throughout Malaya. In fact, the *chettiar* money-lenders were the mainstay of rural credit in Malaya until the growth of the co-operative movement in the 'thirties and supplied medium-term and long-term credit at the rate of 1½ to 3 per cent per month. The *chettiar* community built up landed interests as well as business assets in Malaya, and its investment in Malaya was estimated at Rs. 17 crores in 1949. The Indian grocer who combines the business of collecting raw materials from remote rural areas with that of distribution of manufactured products has also been an important element of Malaya's rural economy. Indians acquired substantial land holdings (299,812 acres in 1938) as the result of the practice of settling Indian labourers on land during the depression with a family allotment of 3 to 5 acres as a source of supplementary earnings. Before World War II the money order remittances to India by Indians in Malaya were of the order of

about one crore of rupees of which the remittances of South Indians amounted to Rs. 60 lakhs. The migratory character of Indian estate labourers in Malaya was in the past a cause of the economic instability of the Malayan rubber plantations. Settlement of Indian estate labourers on land and the banning of emigration of unskilled labourers from India in 1938 have both contributed to the process of permanent settlement of Indian estate labourers in Malaya.

India's economic relations with Malaya are very intimate not only from the point of view of the share of Indians in the economic development of Malaya, but also from the point of view of Malaya's strategic position as an earner of hard currency for the sterling area on the strength of which India has such a big stake in the post-war period. Before the second World War, the greater part of Malaya's import requirements was normally derived from countries of the sterling area, while the greater part of the exports of rubber and tin went to the North American continent. The rest of the sterling area (with individual exceptions), on the whole, used to have an export surplus in relation to Malaya, Malaya used to have an export surplus in relation to North America, and North America, in its turn, usually had an export surplus in relation to the rest of the sterling area. Thus Malaya's export surplus in relation to North America used to offset the import surplus, which the rest of the sterling area had with North America, and thereby solved the sterling area's dollar problem. This broad pattern of triangular settlement of international payments disintegrated during the depression, although it did not entirely disappear. After the second World War, Malaya could not resume her traditional rôle as the earner of hard currency because of low prices of tin and rubber and slow restoration of pre-war productivity in tin and rubber industries. But it was in 1950 that there was not only a boom in tin and rubber prices, after the devaluation of sterling in 1949 had set the pace of rising prices and production, but productivity in the tin and rubber industries was also stepped up sufficiently to boost up exports of rubber from 484.8 (thousand tons) in 1949 to 655.0 (thousand tons) in 1950

and of tin from 23.9 (thousand tons) to 35.9 (thousand tons). The remarkable economic recovery of Malaya in 1950-51 thus enabled the sterling area to earn an enormous amount of dollars which helped substantially to close the widening gap in the balance of payments of the sterling area in relation to the dollar area. Tin and rubber of Malaya earned for the sterling area \$ 331 million (*f.o.b.* basis) in 1950 and \$ 459 million (*f.o.b.* basis) in 1951. Malaya's prosperity reacted favourably on India in two important ways. It boosted exports from India to Malaya at a time when a wide gap in India's overall balance of payments had to be closed. To the extent that it contributed to the easing of the dollar crisis and the stability of the sterling area, it also contributed to India's economic stability during a very difficult period of her recent economic history.

Malaya occupies a strategic position as a dollar earner for the sterling area not only because it produces immense quantities of tin and rubber itself, but also because it has been a great centre of *entrepot* trade through which tin and rubber and other tropical produce of the neighbouring countries like Burma, Thailand, Indonesia and Borneo pass to other countries of Asia and other continents and through which manufactured products from Asia and other continents, either directly or through Hongkong, pass to the various countries of South-East Asia. *Entrepot* trade of Malaya has been normally routed through the great free ports of Singapore and Penang which represent the life-line of the trade of the sterling area with Far Eastern and Pacific countries. Hence, India's trade with Malaya has reflected to a very considerable extent the state of trade with not only Malaya, but also the group of countries of South-East Asia trading through Penang and Singapore. The post-war change in the status of Indonesia and Burma, on the one hand, and of India, on the other, has tended to modify the situation, as we shall explain below, in so far as there is now an impetus, for various reasons, to the establishment of direct trade relations between India and countries of South-East Asia.

Malaya's position as an activating centre of *entrepot* trade may be briefly explained to provide a background to a proper analysis of India's trade relations with Malaya. About 40 per cent of Malaya's total foreign trade is *entrepot* trade, most of which passes through Singapore and Penang. Singapore has the larger share of this trade. It imports raw and semi-processed rubber mainly

from Indonesia and Borneo and re-exports it after further processing and grading. A considerable amount of copra and coconut oil, spices and other tropical produce of the Straits imported from the same sources is similarly re-exported. Tin concentrates from Indonesia are refined in Singapore and re-exported as tin metal. Penang's *entrepot* trade is based on imports of rubber and other produce from Sumatra, Burma, and Thailand, and tin concentrates from Thailand and Burma. In exchange for these raw materials, Malaya re-exports a variety of manufactured products which it imports from many countries and mostly from countries of the sterling area in recent post-war years. After the war, Malaya resumed its *entrepot* trade and helped the process of reorganisation of neighbouring economies which had been disrupted by the war. Owing to financial chaos, part of the trade with Burma, Thailand and Indonesia has been barter. Small Chinese boats have carried textiles, hardware and other manufactured products from Malaya to these countries and brought back raw rubber and other produce. In this way the accumulated produce of the Malayan Archipelago has reached the world markets, and rice, textiles and other essentials of life have been obtained in exchange through the traders of Malaya. Malaya's *entrepot* trade contracted in 1948 and 1949 owing to the establishment by neighbouring countries of direct trade relations with other countries. In 1950, however, the raw material boom boosted Malaya's *entrepot* trade to unprecedented levels.

Current factors bearing on the contraction or expansion of Malaya's trade may be briefly analysed, because they throw light on the trend of India's foreign trade with Malaya in very recent years. The spurt in Malaya's *entrepot* trade immediately after the war is explained by political and economic disorganisation in both Indonesia and Burma and is, therefore, bound to be temporary. Both these countries have now found their feet and would like to carry on international trade directly rather than through Penang and Singapore. But old economic ties cannot be easily severed. The same Malayan race lives on both sides of the Straits of Malacca. The same Chinese traders operate in Sumatra and in Malayan ports. The Straits dollar is a recognised currency in the Rhiow Archipelago. Big shipping, banking, and trading companies operate on both sides of the Straits. It is easy to trade with Singapore and Penang. There are no customs duties

to be paid, no harbour dues are charged if vessels do not pass along the wharves of the Harbour Board of Singapore, there is no flag discrimination and "Straits produce" of established qualities, recognised all the world over, can be sold without difficulty to famous firms. Similarly, Singapore and Penang are the best organised distributing centres for manufactured goods. It is difficult to assume that these hitherto compelling conditions based on geography cannot be overborne by the opening up of direct channels for the foreign trade of both Thailand and Indonesia under the impetus of dollar aid received by these two countries. In Thailand a free market for dollars has already come into existence. With Hongkong as a free port which deals freely in goods of the dollar area[1] as well as the sterling area, the emergence of a free dollar market in Thailand may very well create conditions under which the *entrepot* trade of Malaya will suffer contraction, assuming, of course, that Commonwealth tariff preference, and, more than that, lack of free convertibility of sterling into dollars continue to govern international trade in this region. The most potent factor, however, which tends to weaken Thailand's and Indonesia's link with Malaya's *entrepot* trade is the exigency of State trading conducted by both Thailand and Indonesia on the basis of trade agreements.

The analysis of the trends of India's trade relations with Malaya should naturally begin with a study of the composition and value of India's exports to, and imports from, Malaya before the first World War and of the changes in commodity composition and fluctuations in the values of trade in the period between the two World Wars. The relevant statistical facts are stated in the form of comparative tables on the following page.

[1] In 1950 Hongkong was able to extend its markets to other areas so as to more than compensate for loss of trade with China. Hongkong was aided in this venture by the U.S.A. which has not only supplied many of the colony's imports that it could not obtain elsewhere, but, through its E.C.A. programme of aid to Asian countries and Europe, has also greatly influenced the trade of other areas by providing funds to import goods, which has stimulated the export trade of certain countries in South-East Asia. For example, a good part of Hongkong's exports to China consisted of Thailand's rice, the purchase of which was financed by E.C.A. funds. American aid to Thailand and Indonesia may also have had the effect of stimulating the trade of Hongkong in dollar goods.

India's Exports to Straits Settlements
(Thousands of Rs.)

	Pre-war Average	1926-27	1933-34	1938-39
Animals, living ...	6,93	9,53	24	2
Coal ...	17,08	16,15	60	72
Cordage and rope ...	3,35	11,44	4,01	1,97
Cotton twist and yarn ...	24,41	11,29	3,83	29,06
Cotton manufactures ...	57,59	1,56,22	26,18	56,74
Fodder, bran, etc. ...	15,03	16,94	2,66	1
Rice (not in the husk) ...	3,24,33	3,11,66	87,96	13,34
Other grains ...	18,80	28,70	10,05	16,20
Raw hides and skins ...	25	37	—	8
Jute manufactures ...	34,40	99,70	41,70	21,07
Opium ...	1,48,73	—	—	—
Provisions and oilman's stores	14,92	20,75	7,03	10,62
Raw rubber ...	—	—	10,06	—
Seeds ...	8,23	14,66	6,61	7,61
Tin ore ...	—	—	55,27	—
Tobacco ...	13,12	16,40	4,26	2,22
Other articles ...	67,76	2,18,28	65,85	44,31
Total ...	7,54,93	9,32,09	3,26,41	2,03,97

India's Imports from Straits Settlements
(Thousands of Rs.)

	Pre-war Average	1926-27	1933-34	1938-39
Canes and rattans ...	4,51	5,50	2,67	3,84
Cotton manufactures including yarn ...	8,01	21,37	1,86	45
Drugs and medicines ...	2,75	7,46	1,51	1,07
Dyeing and tanning substances	7,98	11,13	4,72	6,76
Fish ...	22,53	31,87	10,18	—
Fruits and vegetables ...	6,27	9,88	7,31	19
Gums and Resins ...	—	—	12,34	7,41
Lac ...	—	—	11,32	4,47
Matches ...	7,64	87	2	—
Metals, tin ...	44,54	93,25	52,86	62,84
Oils, mineral ...	15,52	34,24	54	24,81
Oils, vegetable ...	—	—	14,69	44,10
Provisions and oilman's stores	23,72	54,80	19,63	26,47
Rice (not in the husk) ...	7,44	4	4	—
Raw silk ...	6,75	1	—	—
Betelnuts ...	85,73	2,14,30	87,15	1,82,30
Other spices ...	12,63	22,14	6,94	12,47
Starch and farina ...	—	—	11,28	15,02
Sugar ...	3,74	3,06	37	—
Other articles ...	48,72	72,21	22,81	20,81
Total ...	3,08,48	5,82,13	2,68,24	4,13,06

Besides the pre-war figures of trade as the basis of comparison, the figures in the tables relate to 1926-27, the peak year of the post-war boom, 1933-34 the worst year of the depression, and

1938-39, the year preceding the second World War which witnessed a stockpiling boom. These years have been selected for the purpose of studying the trade relations between India and Malaya in the context of rather violent economic fluctuations, to which tropical colonial economies producing a very few industrial raw materials for export are specially liable.

First, let us note the trends of India's exports. It is interesting to note that before the first World War, the five principal commodities arranged in the order of values exported were rice, opium, cotton manufactures, jute manufactures, and cotton twist and yarn. Of these rice and opium accounted for Rs. 4,73,06,000 out of a total of all exports of Rs. 7,54,93,000. After the first World War, the opium trade ceased altogether, and the development of the Indian cotton textile industry led to considerable exports of cotton manufactures. In 1938-39 with the separation of Burma the total of rice exports dwindled to a very small fraction of what it had been before.

The trends of India's imports from Malaya also exhibit large fluctuations over these years, but the range of fluctuation is much narrower than in the case of India's exports to Malaya. The peak year was the year 1926-27 and the total value of imports reached the minimum level in 1933-34. But unlike the total value of India's exports to Malaya, the total value of India's imports from Malaya increased by a little less than Rs. 2 crores in 1938-39, as compared with 1933-34.

Before the first World War, the most important commodities arranged in the order of total values imported were betelnuts, tin, provisions and oilman's stores, fish and other spices. In 1926-27 imports of betelnuts were valued at Rs. 2,14,30,000, as compared with Rs. 85,73,000 before the war. The value of tin imported was double the pre-war value. There were similar increases in respect of provisions and oilman's stores, mineral oils, fish, dyeing and tanning substances, drugs and medicines, other spices, and cotton manufactures (re-exported from Malaya). Imports of rice (re-exported from Malaya) were reduced to mere Rs. 4 lakhs, as compared with Rs. 7,44 lakhs before the war. In 1933-34 there was a drastic decline all along the line. The most noticeable decrease was in respect of matches and is explained by the development of the Indian match industry. Similarly, imports of sugar (re-exported by Malaya) were reduced to a negligible

figure in consequence of the rapid growth of indigenous sugar production. In 1933-34 certain new commodities figured in imports from Malaya—vegetable oil (coconut oil), gums and resins. lac and starch and farina—all industrial raw materials needed in some of India's rising manufacturing industries.

In 1938-39 there was an increase in import values in respect of some of these raw materials of industry as well as in respect of dyeing and tanning substances and tin. Betelnuts regained their importance and accounted for almost one-fourth of the total value of imports from Malaya to India in 1938-39. Fish and rice disappeared as items of imports presumably due to the separation of Burma. Matches and sugar, the imports of which from Malaya into India were valued at Rs. 11,38 lakhs before the first World War, also disappeared from the list of imports in 1938-39 in consequence of the development of the sugar industry and the match industry in India during the inter-war period.

The trend of India's balance of trade in relation to Malaya is indicated in the following table :

INDIA'S BALANCE OF TRADE IN RELATION TO MALAYA

(Thousands of Rs.)

Pre-war	+ 4,46,45
1926-27	+ 3,49,96
1933-34	+ 58,17
1938-39	− 2,09,09

It seems that during the period between the two World Wars there was a clear long-period trend towards a gradual decrease in India's large pre-war export surplus with Malaya. After the separation of Burma the export surplus which had reached its minimum level in 1933-34 was actually converted into an import surplus in 1938-39, which was not very much less than the export surplus which India had with Malaya in 1926-27.

A new chapter in the long history of India's trade relations with Malaya was opened after the end of the second World War. A proper analysis of the new trends must be preceded by a statement of the statistical position relating to imports, exports, and balance of trade as compared with the pre-war situation.

	Imports from India into Malaya (Million $)	Percentage to total imports	Exports from Malaya to India (Million $)	Percentage to total exports	Balance of trade (favourable + or unfavourable —)
1939 ...	18·17	2·9	26·41	3·6	+ 8·24
1948 ...	34·91	2·0	63·26	3·7	+ 28·35
1949 ...	67·40	3·7	60·89	3·6	— 6·51
1950 ...	195·67	6·8	75·95	1·9	—119·72

Even a cursory inspection of the above table reveals certain significant new trends. The value of Malaya's imports from India in 1950 was more than ten times the value of pre-war imports. This reflects the trend of India's industrial development and its increasing dependence upon export markets for manufactured products in the neighbouring countries, in which there is a fairly elastic demand for low-income goods like cheap cotton textiles which India is in a position to supply. Comparative economic stability in Thailand, Indonesia, Borneo, and Malaya synchronised with a common raw material boom and led to an unprecedented demand for cotton textiles, to which the security motive as much as the speculative motive in the context of the current international political tension contributed to a considerable extent.

The unprecedented expansion of India's exports to Malaya, combined with the comparatively low rate of expansion of India's imports from Malaya, created in 1949 and 1950 an unprecedented situation with regard to the balance of trade. Malaya's export surplus with India has always been a traditional feature of the trade relations between the two countries. For the first time Malaya had an *import surplus with India of $ 6.51 million in 1949*, which *increased to as much as $ 119.72 million in 1950.* This phenomenally large surplus materially assisted India to rectify the position created by the large sterling deficit in her balance of payments in the pre-devaluation period.

Will these trends persist? It is unlikely that they will. It will be worth while in this connection to discuss the trend of Indian exports in respect of those commodities which have commanded a larger and larger market in Malaya in recent years. The relevant facts are embodied in the following comparative table:

Percentage Share of India in Imports into Malaya of Indian Goods which have commanded a Larger Market compared to Pre-war

	1939		1948		1949		1950	
	Value ('000 $)	Per-centage	Value ('000 $)	Per-centage	Value ('000 $)	Per-centage	Value ('000 $)	Per-centage
Cigarettes ...	Less than half	—	2	Less than half	22	Less than half	2,565	4
Coal ...	1,135	18	3,113	64	2,568	51	759	25
Sewing machines ...	—	—	—	—	—	—	175	3
Grey unbleached piece-goods (cotton) ...	446	44	934	6	5,388	27	54,792	80
White bleached piecegoods (cotton) ...	716	19	1,241	4	6,748	31	30,976	70
Dyed in the piece (cotton)	481	10	1,144	2	5,617	18	23,811	51
Printed piecegoods (cotton) ...	531	15	249	Less than half	4,569	12	10,263	25
Woven coloured (cotton)	488	22	881	4	3,954	33	12,966	75
Cotton *sarongs* ...	1,237	39	6.674	52	9,824	66	17,974	86
Outer covers for motor-cars and trucks ...	—	—	155	2	133	2	1,128	11

With the exception of coal, a raw material, the export surplus of which is in any case bound to be small in future, the rest of the commodities are manufactured products. Two new products which practically did not figure in the list of India's exports to Malaya before the war, but which recently gained a foothold in the Malayan market, are cigarettes and sewing machines. Sewing machines are a new and progressive line of manufacture in India and are commanding a wider market in India and abroad for their cheapness and fairly satisfactory quality. Malaya is a good market for cigarettes. Almost 75 per cent of Malaya's imported cigarettes is re-exported to Indonesia, British North Borneo, and Sarawak.

Indian cotton piecegoods were, however, mainly responsible for the remarkable increase of India's exports to Malaya in 1949 and 1950. Of all the varieties of cotton textiles, cotton *sarongs* (an Indian handloom product) have shown a progressively rising percentage share — 39 per cent in 1939, 52 per cent in 1948, 66 per cent in 1949 and 86 per cent in 1950. Probably, the ban on the imports of *lungyis* into Burma and the difficulties in Indo-Pakistan trade were responsible for this phenomenal increase. While in the case of other varieties of piecegoods, India's share was only a small fraction of the pre-war share in 1948, in the case of *sarongs* it was as high as 52 per cent in 1948.

The real stimulus to exports of Indian piecegoods to Malaya came after the devaluation of the rupee along with sterling in September, 1949, and the percentage share varying from 3 to 6 per cent in 1948 rose to a figure ranging between 25 per cent and 80 per cent in 1950. The cloth produced in a number of Indian mills no doubt compared favourably in value as well as in quality with the product of other countries. But the main stimulus was provided by the abolition of the export duty on cloth in India and the imposition of dollar cuts in Malaya. Although the resumption of Japanese competition in cotton textiles was in the offing (Japan had concluded an agreement with the sterling area for an exchange of £ 55 million worth of raw materials against £ 45 million worth of manufactured goods to be exported) and the loss of the Chinese market caused a temporary glut of goods indented for this market, yet the boom conditions continued. Removal of control on export prices in India led to profiteering for a short period (Indian exporters quoting 25 to 30 per cent

higher prices) but eventually 10 to 12 per cent margin over ex-mill prices was fixed, and import demand in Malaya revived.

This boom revealed some of the serious defects of Indian merchandising. There were complaints of indifference to buyers, of lack of co-operation with overseas buyers as regards complying with suggestions for changes in colour, design and other specifications, of Indian goods falling short of specifications, of supply of defective goods, of bad packing and of failure to supply importers with proper documents. But in 1950 further stimulus to Malaya's increasing purchases of Indian piecegoods came from the Government of India's decision to release a further 125 million yards of cloth of medium and coarse counts for export from India, because Malaya is mainly interested in cloth of medium and coarse counts, and renewed activity in re-export trade was plainly visible in the middle of 1950.

The boom of 1950-51 was actually a short-lived one.

A violent shift in the trend of exports was the most remarkable feature of India's trade with Malaya in 1951-52. Many manufactured products which figured in the list of principal exports in 1950-51 did not figure at all in exports in 1951-52. There was a drastic decline in the exports of cotton piecegoods and other cotton manufactures. There was an increase only in the exports of coal and of oils. While exports to Malaya were drastically reduced, India's imports from Malaya actually increased. India increased her purchases of betelnuts, mineral oils, coconut oil, tin and miscellaneous goods. India's balance of trade naturally experienced a violent shift from an export surplus of Rs. 19,43 lakhs to an import surplus of 6,49 lakhs — a total unfavourable shift of Rs. 25,92 lakhs in the course of one year.

These trends are not entirely explained by the break of the raw material boom in South-East Asia. As the following tables show there was diversion of exports to Thailand and Indonesia on the basis of trade agreements and also to the Philippines.

The three countries mentioned in the following tables are outside the sterling area and the system of Commonwealth preference and have been experiencing payments difficulties in respect of their purchases; and their sales of tropical products that are

EXPORTS, IMPORTS AND BALANCE OF TRADE OF INDIA
(Lakhs of Rs.)

	1950-51	1951-52
THAILAND		
Exports	4,76	8,72
Imports	8,15	11,64
Balance	—3,39	—2,92
INDONESIA		
Exports	2,39	3,75
Imports	3,02	2,95
Balance	—0,63	+80
PHILIPPINES		
Exports	1,02	1,82
Imports	32	59
Balance	+70	+1,23

competitive with those of Ceylon, Burma, and Malaya have to face the higher standard rates of import duty levied on goods originating outside the Commonwealth. These factors are mainly responsible for the anxiety shown by these countries to develop direct trade relations with others. Thailand and Indonesia are also conducting State-trading in staple exports on the basis of trade agreements which naturally provide for direct imports from other countries.

In conclusion, a few comments may be made on the trends of India's imports from Malaya in recent years as compared with pre-war. In 1951-52 betelnuts, mineral oils, coconut oil, raw rubber, tin, and sago flour accounted for 80 per cent of the total value of India's imports from Malaya. Betelnuts and sago flour are specialised tropical products for which there is a wide demand in India, provided that prices are not unduly high. Mineral oils, coconut oil, tin, and rubber are industrial raw materials which have grown in importance in recent times as the result of India's industrial development. If we leave out tin, which is Malaya's semi-monopoly, the demand for Malaya's rubber and coconut oil in India is relatively small, and is dependent upon prices ruling in countries which are competitive sources of supply, such as Ceylon.

CHAPTER 3A

HONGKONG

THE beginnings of India's economic relations with Hongkong can be traced to the China trade in Indian opium, the vicissitudes of which eventually led to Hongkong becoming a British possession in 1841. Western trade with China had been developing from small beginnings in the neighbouring ports of China for many centuries. By the 1930's the trade had assumed substantial proportions and Europeans had been settled in Canton and Macao. The major item of trade with China was opium imported into China from India. The average number of opium chests imported every year increased from 4117 in 1798-1825 to 6570 in 1826, 7427 in 1827-29, 11,835 in 1830, 12,095 in 1831-35 and 19,600 in 1837.

Opium imported from India was not stored in either Macao or Canton, but was held in hulks either at the midway anchorage at *Kam-Sing-Moon* during the period of the south-west monsoon or at the island of *Lin tin down* the Pearl river estuary during the north-east monsoon season. Foreign ships carrying opium from India would discharge their cargo at the receiving hulks, and whatever remained of it was discharged at *Whampoa* (the port of Canton) for purposes of legitimate trade. The number of hulks through which opium leaked out increased from five in 1830 to twenty-five in 1837.

There was naturally chronic friction between foreign merchants and the Chinese authorities, which ultimately led to the China war, euphemistically described as the 'Opium War'. People may resent this name, but no one has disputed that the war was motivated by considerations of trade — of obtaining a free port at a strategic point — and that opium was one of the principal commodities handled. It has been estimated that in 1837 the stocks of opium in China were valued at £ 3,000,000 (£ 100 per chest) and the total value of opium trade was in the neighbourhood of £ 2,000,000. The British thus had an important stake in the safeguarding of this lucrative trade, for which alone even a 'war' might have been considered worthwhile, although the vast

potentialities of Hongkong as a centre of *entrepôt* trade might also have been considered equally important.

Since 1841, Hongkong has lived down what is, according to many, its shady past. It has developed as one of the remarkable free ports of Asia and the Far East, with its harbour providing the safest anchorage for deep sea ships, with its developed facilities for the maintenance, repair and bunkering of ships, for the handling, storage, and transhipment of goods and for banking, insurance, and other financial prerequisites of trade, with its low port dues, minimum of restriction on the free movement of goods[1] and men, and security and stability of administration. In fact British economic enterprise, based initially on India, in the course of its expansion in South-East Asia and the Far East established the farthest link in the chain in Hongkong, with Singapore as an intermediate point in the vast network of commercial and financial relations[2] which have activised the economies of this region, and given them a kind of economic unity and coherence which never existed before and for which even now during the period of imperialism in retreat no easy substitute has been found.

After the second World War, while too much attention has been paid to the progress of economic recovery in Great Britain, or lapses from it from time to time, it is not sufficiently recognized how the recovery of Singapore and Hongkong as centres of *entrepôt* trade and international finance has contributed so much to whatever economic rehabilitation has been achieved in South-East Asia and the Far East and thereby assisted world economic recovery.

India's trade with Hongkong developed under the same stimulus which activised India's trade with Malaya and Singapore. British trading firms, banks, insurance companies, and shipping companies handled the trade at both ends. Although Hongkong is part of the British Empire, yet its trade, which is of the nature of the *entrepôt* trade of a free port, has not flown mainly into empire

[1] In Hongkong duties are levied only on imports of tobacco, wines and spirits, petroleum products, paints, toilet preparations and proprietary medicines.

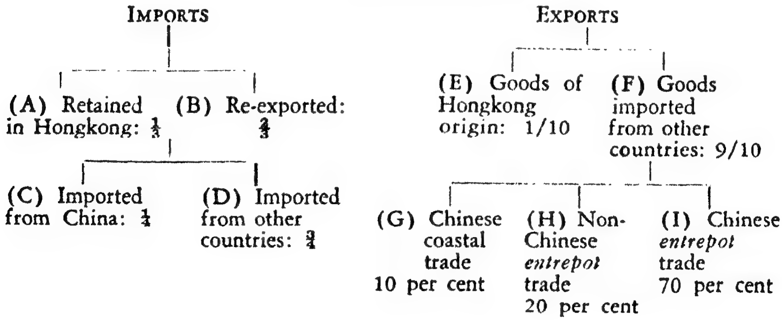
[2] We refer here to British companies which have been operating throughout Asia and the Far East, such as Mackinnon, Mackenzie & Co. and Jardine, Matheson & Co., Ltd. in the field of shipping, the Hongkong and Shanghai Banking Corporation, the Mercantile Bank of India Ltd. and the Chartered Bank of India, Australia and China in the field of banking and the Sassoons, the Imperial Tobacco Co. and the Imperial Chemical Industries in the field of trade and production.

channels. Its trade with the U.K. is important. But its trade with China has an overwhelming importance. Hongkong also serves as an important intermediary between buyers and sellers in the American and European continents and buyers and sellers in Asian countries like Japan, French Indo-China, and the Philippines, which are not bound by the commercial and financial ties that hold together the Commonwealth and the British Empire.

Until 1935 Hongkong's currency was autonomous and linked to silver in order to keep in line with the Chinese silver standard currency. This was principally due to the crucial importance of China as a destination of Hongkong's exports and as a source of supply of Hongkong's imports. The importance of China has no doubt varied in relation to Hongkong's other trading partners, but the 'China trade' for which Hongkong came into existence has always been basic to Hongkong's prosperity. Consequently, India's trade with Hongkong has, by and large, reflected the trend of India's direct trade with China so far as India's export trade is concerned.

The facts stated above can be seen in better perspective, if we refer to an estimate of the composition of Hongkong's foreign trade prior to the middle of 1937, shown below in schematic form.

HONGKONG'S FOREIGN TRADE



The following table shows the composition and trend of India's imports from Hongkong during the quinquennium preceding the first World War.

IMPORTS FROM HONGKONG
(Thousands of rupees)

	1909-10	1910-11	1911-12	1912-13	1913-14
Drugs and medicines	8,40	7,18	4,75	5,59	6,47
Grain, pulses and flour	4,71	3,81	4,33	3,96	6,09
Raw silk	20,22	24,01	24,09	28,87	21,26
Silk manufactures including yarn	21,36	23,71	16,75	20,98	25,23
Refined sugar	9,55	23,44	9,96	5,38	3,38
Others	25,67	34,61	31,45	30,51	35,80
Total	89,91	1,16,76	91,33	95,29	98,23

Hongkong has been an important exporter of medicinal herbs and essential oils needed in medicinal preparations. Camphor and its oil and by-products have been the traditional exports of China and Formosa. Apart from brown camphor oil, *Ho* oil (chemically similar to rosewood oil) and *sassafras* oil (both used for medicinal and flavouring purposes) as well as eucalyptus oil in the form of fractionated camphor oil, have commanded export markets through Hongkong. Tea-seed oil of China ranks high as an export commodity and even in very recent years it has been imported to India *via* Hongkong. It is used in the pharmaceutical and cosmetic industries. Similarly, aniseed oil from China has long been exported through Hongkong. The constituents of this oil — *methyl chavicol, anisic aldehyde, anisic acid* and *terpene* — are used in medicinal preparations. It has continued to be exported to India even during the last few years. In the category of grain, pulses, and flour, Hongkong before the first World War (and even now) handled rice shipments from Siam and Indo-China and wheat and wheat flour from North America and latterly Australia. Statistics show that India imported a certain amount of foodgrains from Hongkong, although India's exports (before the separation of Burma) of foodgrains to Hongkong were more important.

By far the most important categories of imports from Hongkong from the point of view of total value were raw silk and silk manufactures including yarn. In 1900 India was one of the world's great producers of silk. Although raw silk was imported, yet imports were only one and a quarter times exports. In 1914-15, on the other hand, imports of raw silk were more than nine times the value of exports.

The importance of China in Hongkong's silk trade is seen

from the fact that even in 1933, a year of depression, Chinese raw silk passing through Hongkong formed 36 per cent of China's total exports of raw silk and the value of Chinese waste silk passing through Hongkong constituted the largest total for any single commodity ($ 3,300,000). It is interesting to note that before the first World War and till 1938-39 India regularly imported refined sugar from Hongkong. Hongkong was an important sugar-refining centre in the Far East. Raw sugar represented about 96 per cent of the total amount of sugar imported into Hongkong, and 90 per cent of it came from the Netherlands Indies either for re-export or for export after going through the refining process. India's imports of sugar from Hongkong were drastically reduced in the 'thirties as the result of the development of the Indian sugar industry under the stimulus of protection.

It will be noticed that even during a short period of five years before the first World War, the total value of imports from Hongkong had a clear rising trend. This was part of the broad trend noticed in the nineteenth century and the early twentieth century. The main factor which explains this trend is the steady fall in the external value of Hongkong's currency from year to year as the result of the falling price of silver in relation to gold, which operated as a bounty on Hongkong's exports of Chinese products.[1]

The trend of India's export trade with Hongkong is illustrated in the following table which presents the situation before the first World War.

EXPORTS OF INDIAN MERCHANDISE

(Thousands of Rs.)

	1909-10	1910-11	1911-12	1912-13	1913-14
Chemicals	11,01	11,53	10,87	12,07	10,22
Raw cotton	36,45	38,71	18,46	30,90	39,73
Cotton twist and yarn	3,51,31	3,78,12	2,79,27	4,56,24	4,67,48
Grain, pulses, flour	4,59	11,64	9,97	22,08	15,22
Jadestone	10,48	8,67	2,83	2,26	3,99
Jute manufactures	10,53	4,37	8,41	6,13	7,64
Opium	5,06,58	5,94,49	4,52,98	3,60,91	1,62,61
Others	24,32	45,12	30,48	47,64	58,41
Total	9,55,27	10,92,67	8,13,27	9,38,23	7,65,30

[1] The exchange value of the Hongkong dollar fell from 5*s.* in 1852 to 1*s.* 3*d.* in 1935 when it was stabilized at this rate by abandoning the silver standard and creating an 'Exchange Fund'.

EXPORTS OF FOREIGN MERCHANDISE

(Thousands of Rs.)

Fishmaws and shark fins	3,49	3,11	5,32	6,12	5,08
Fruits and vegetables dried, salted and preserved	1,93	2,07	1,66	3,19	1,81
Others	8,44	7,61	4,04	3,24	9,97
Total	13,86	12,79	11,02	12,55	16,86

Even a cursory inspection of the tables reveals that opium and cotton twist and yarn accounted for nearly 90 per cent of India's exports to Hongkong. After 1841 India's China trade in opium was routed through Hongkong. Although it was a contraband trade between 1842 and 1858, yet in actual fact it was as open as daylight, Hongkong being the principal centre of distribution. In 1858 the opium trade was subject to an import duty levied by the Chinese authorities and imports were permitted on the condition that opium must be landed at a Chinese port and distributed inland by the Chinese as Chinese property. The import of Indian opium into China declined in subsequent years.

In 1906 an imperial edict ordered that opium smoking would be banned within a period of ten years. In 1907 the British government entered into a provisional agreement with the Chinese government by which the import of Indian opium into China was to be progressively reduced, while poppy cultivation in China which had expanded enormously was altogether stopped. In 1911 the import duty on opium was raised to discourage imports and an equivalent excise duty was imposed on the domestic product which apparently had not disappeared in spite of the ban. Between 1910 and 1917 imports of opium declined steadily.

Cotton twist and yarn represented another important article of export from India to Hongkong, apart from opium. The bulk of exports of cotton yarn was ultimately destined for China. Cotton yarn imports into China on a considerable scale began after 1898. In 1899 their value exceeded that of imports of cotton textiles. After 1905 the growth remained stationary. Japan was India's competitor in China's yarn trade. India's share tended to be equal to Japan's after 1905, and in 1913 they were almost equalized. It is interesting to observe that the decline in India's export trade in opium was, even during the

short period of five years, to a considerable extent compensated for by the increase in India's exports of cotton twist and yarn.

The trend of India's trade with Hongkong during the years of the first World War is illustrated in the following comparative tables.

India's Imports from Hongkong

(Thousands of £)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-
Drugs and medicines	43	34	29	34	42	60
Grain, pulses and flour	41	32	31	6	2	11
Raw silk	142	123	103	94	100	143
Silk manufactures, including silk yarn	168	175	196	167	217	324
Refined sugar	23	49	281	136	120	90
Others	238	219	244	309	419	560
Total	655	632	884	746	900	1,188

India's Exports to Hongkong

(Thousands of £)

Exports of Indian Merchandise.	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
Chemicals	68	38	24	11	7	18
Raw cotton	265	238	161	146	119	127
Cotton twist and yarn	3,117	1,963	1,931	1,972	1,861	2,301
Grain, pulses and flour	101	36	26	26	20	18
Jadestone	27	55	36	75	79	83
Jute manufactures	51	39	112	229	250	258
Opium	1,084	111	79	48	78	117
Others	389	329	377	397	309	335
Total	5,102	2,809	2,746	2,904	2,723	3,257
Exports of Foreign Merchandise.						
Fishmaws and shark fins	34	22	26	29	32	41
Dried, salted, preserved fruits and vegetables	12	10	16	17	8	17
Others	66	43	35	56	56	89
Total	112	75	77	102	96	147

The broad trends of imports and exports in wartime show interesting peculiarities. While imports from Hongkong showed an appreciable increase, exports showed a considerable drop. These trends should be considered in the light of the rise in the price of silver which raised the exchange value of the Hongkong dollar. Obviously, the exchange factor does not seem to have had a restrictive effect on imports from Hongkong and a stimulating effect on exports to Hongkong.

India was replacing imports of essential goods hitherto coming from Europe by goods procured from Japan, the U.S.A., and the Far East. Hongkong's merchants were adapting themselves to the new situation. It will be noticed that the total value of India's imports from Hongkong of the principal commodities — raw silk, silk manufactures and sugar — actually registered an increase as compared with pre-war, as the following table shows:

IMPORTS
(Thousands of £)

	(1) Raw silk	(2) Silk manufactures	(3) Refined sugar	(4) Total of (1), (2), (3)	(5) Percentage of (4) to total imports.
1913-14	142	168	23	333	50
1914-15	123	175	49	347	55
1915-16	103	196	281	580	65
1916-17	94	167	136	397	53
1917-18	100	217	120	437	47
1918-19	143	324	90	557	50

India's purchase of refined sugar in the Hongkong market was larger owing to the disruption of the usual channels of supply. The increase in the imports of raw silk and silk piecegoods was part of a long-term trend connected with the rise of China and Japan as important silk producers in pre-war years and in wartime, which put the Indian silk industry at a serious disadvantage.

India's exports to Hongkong were drastically reduced. It will be noticed that the drastic fall in the total value of exports was mainly due to the sharp fall in the exports of two principal staples — opium and cotton twist and yarn. The decline in the opium trade was inevitable. The sharp decline in India's exports of cotton yarn was essentially due to domestic shortages connected with the disruption of supplies of cotton textiles from the United Kingdom.

The following tables present the trends of trade during (*i*) the period of the post-war boom, (*ii*) the depression of the 'thirties and (*iii*) the period of recovery till the outbreak of the second World War.

India's Imports from Hongkong

(Thousands of Rs.)

	POST-WAR BOOM			DEPRESSION AND RECOVERY			
	Pre-war average	1921-22	1922-23	1933-34	1934-35	1936-37	1938-39
Apparel	1,21	2,56	2,14	71	1,05	19	27
Building materials	83	8,84	2,39	5	—	—	—
Cotton manufactures	1,94	9,43	7,84	1,26	93	1,27	1,85
Cordage	3,19	4,18	2,15	34	20	10	25
Drugs and medicines	6,48	9,58	7,67	1,16	1,53	36	31
Fireworks	5,00	8,16	6,87	76	77	24	46
Grain, pulses, flour	4,58	3,09	4,13	1,44	1,84	1,51	5,12
Provisions	—	—	—	7,55	9,70	27	25
Raw silk	23,69	18,86	22,46	8,39	2,21	1,65	5,82
Silk manufactures	21,61	48,02	37,22	3,46	2,47	4,83	1,80
Refined sugar	10,34	24,31	17,90	2,73	2,87	2,88	4,67
Others	19,44	28,52	34,43	16,87	15,46	11,88	14,23
Total	98,31	1,65,55	1,45,20	44,72	39,03	25,18	35,03

India's Exports to Hongkong

(Thousands of Rs.)

Exports of Indian Merchandise

	POST-WAR BOOM			DEPRESSION AND RECOVERY			
	Pre-war average	1921-22	1922-23	1933-34	1934-35	1936-37	1938-39
Chemicals	11,14	13,70	11,98	92	62	7	48
Coal and coke	—	—	—	6,58	3,48	—	6,11
Raw cotton	32,85	10,94	5,85	—	5	—	—
Cotton twist and yarn	3,86,49	3,98,25	3,58,14	—	—	88	41,30
Grain, pulses, flour	12,70	47,22	1,59,80	27,75	2,30	17	14
Drugs and medicines	—	—	—	4,19	4,25	8,19	7,69
Jadestone	5,65	17,56	18,18	1,68	84	—	—
Jute manufactures	7,42	50,04	34,10	47,66	28,48	27,19	8,16
Opium	4,15,52	14,96	—	—	—	—	—
Others	41,09	77,80	74,62	18,85	16,92	13,09	14,39
Total	9,12,86	6,30,47	6,62,67	1,07,63	56,94	49,59	78,27

India's Exports to Hongkong
(Thousands of Rs.)

Exports of Foreign Merchandise

	Post-war boom			Depression and recovery			
	Pre-war average	1921-22	1922-23	1933-34	1934-35	1936-37	1938-39
Fishmaws and shark fins	4,67	12,56	10,77	1,78	82	1,05	85
Dried, salted, preserved fruits and vegetables	2,13	87	1,87	75	—	18	21
Others	6,62	21,27	10,08	1,43	1,96	2,71	2,50
Total	13,42	34,70	22,72	3,96	2,78	3,94	3,56

During the post-war boom, while India's imports from Hongkong were considerably above pre-war, exports continued to be much below the pre-war level. If we analyse imports we find that the importance of three important staples — raw silk, silk manufactures and refined sugar — was practically the same as in wartime. With the return of normalcy in international trade the fall in the exchange rate of the Hongkong dollar (2*s*-2¾*d* at the end of 1922) must have stimulated Hongkong's exports to India. The increase in imports of miscellaneous goods ('others') from Hongkong was an evidence of the impact of the backlog of consumer demand reinforced by favourable exchange. An interesting trend was the increase in the imports of apparel and cotton manufactures from Hongkong which was the consequence of the development of the Chinese and the Japanese cotton textile industry in the 'twenties.

An analysis of India's exports to Hongkong shows different trends. The fall in the absolute total values is striking. Opium exports disappeared in 1922-23 never to be resumed again. There was some compensatory increase under (1) cotton twist and yarn, although the prospects of the trade in cotton yarn were very gloomy; (2) grain, pulses and flour, the exports of which were to dwindle to almost nothing after the separation of Burma in 1934; and (3) re-exports of food articles of foreign origin (fishmaws, shark fins and dried, salted and preserved fruits, and vegetables). The traditional basis of India's export trade

with Hongkong was thus precarious in the extreme, and, as we shall see, India's exports to Hongkong in the 'thirties were reduced almost to insignificance.

The depression severely hit India's trade with Hongkong. Part of the drastic fall in imports and exports is explained by the development of direct trade between India and China as the result of the increase of storage facilities at Shanghai, Tientsin, and Dairen, so that goods from northern and central China no longer needed to pass through Hongkong. But the effects of the depression are unmistakable. The deflationary impact of the depression on Chinese purchasing power was so severe that favourable exchange could not arrest the falling trend of demand. It is a notable fact that no cotton twist and yarn was exported from India to Hongkong in 1933-34 and 1934-35. Opium had already faded out of the picture as early as 1922-23. Thus these two commodities, which had accounted for as much as 87 per cent of the total value of exports to Hongkong in 1913-14, disappeared from the list of exports during the depression.

It will be noticed that the delayed action of the depression continued in the case of Hongkong through 1936-37 which was a year of the lowest level of Hongkong-India trade ever recorded. In 1935 Hongkong abandoned the silver standard as soon as China was forced off it. Even earlier, the silver standard had been abandoned when China had imposed variable duties on the export of silver (which was the only commodity to be sold abroad in a depression in larger quantities on a rising market)[1] and Hongkong had also banned exports of silver to keep in line. But the expansionary effect of the realignment of the two currencies on the new basis of managed paper currency was not reflected in Hongkong's trade with India. The most important incident which had a bearing on Hongkong's trade in 1937 was the occupation of Manchuria by Japan, which was soon followed by the unfolding of the Japanese plan for converting Japan, Manchuria, and north China into an economic bloc.

After 1937 two important trends were clearly perceptible. In

[1] China's silver exports have been estimated at $ 200,000,000. It was said that the Japanese were encouraging smuggling of silver from China.

the first place, Hongkong's exports were diverted more to countries other than China and the British Empire. (The Ottawa Preferences of 1932 covered Hongkong, although a colony with a vast interest in free trade could not benefit from them). In the second place, industrial development in Hongkong was accelerated after 1937. It kept its full momentum till 1941 and kept its pace during the period after the second World War.

There were two factors which explain this trend. The occupation of important Chinese cities by the Japanese after 1937 led to a transfer of additional industrial capacity to Hongkong. Thus the number of registered factories increased from 689 in 1937 to 839 at the end of 1938. There were also hundreds of unregistered factories and workshops housed in converted tenements. These local enterprises responded to the exceptional needs of rearmament in 1938-39. The second factor was the tariff concessions obtained in the empire countries by manufacturers of textiles, electric torches and rubber shoes in return for Hongkong's preferences in respect of empire-produced tobacco, brandy, and motor cars.

The second World War meant an acceleration of the trends noted above — an increase in India's imports from, and exports to, Hongkong. The resilience of Hongkong's economic potential in wartime is reflected in the high level of India's trade with Hongkong. Before we analyse the wartime trends it would be helpful to present the statistical picture.

IMPORTS FROM HONGKONG

(Thousands of Rs.)

	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
Apparel	21	47	62	17	5	No imports
Cordage	41	78	56	11	42	
Cotton manufactures	59	19	70	52	—	
Drugs and medicines	65	1,58	66	7	12	
Fireworks	1,25	3,94	4,56	—	—	
Grain, pulses, flour	3,87	2,10	30	—	—	
Provisions	38	65	1,05	2	1	
Raw silk	20,67	3,33	17,59	—	25	
Silk manufactures	2,82	4,49	3,43	26	—	
Sugar	5,01	5,96	3,25	1,84	—	
Others	28,19	32,18	49,13	11,21	72	
Total	64,05	55,67	81,85	14,20	1,57	

Exports to Hongkong
(Thousands of Rs.)

Exports of Indian Merchandise	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
				No	No	No
Raw cotton	1	—	14	exports	exports	exports
Cotton twist and yarn	25,70	52,64	29,33	---	—	—
Drugs and medicines	9,07	5,24	3,78	—	—	—
Grain, pulses, flour	17	18	30	—	—	—
Jadestone	—	—	—	—	—	—
Jute manufactures	13,15	35,17	19,90	—	—	—
Opium	—	—	—	—	—	—
Total	94,79	1,29,62	1,00,78	—	—	—

Exports of Foreign Merchandise	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
Fishmaws and shark fins	28	2	—	—	—	—
Dried, salted or preserved vegetables	18	3	13	—	—	—
Others	3,82	1,69	3,37	—	—	—
Total	4,28	1,74	3,50	—	—	—

An analysis of India's imports from Hongkong shows that practically all the items in the list of imports were needed for meeting military requirements. In spite of the shortage and dangers of shipping, Hongkong supplied India with apparel and cotton manufactures, drugs and medicines, raw silk and silk manufactures, and provisions and sugar, which augmented domestic supplies. Even after the Japanese occupation of Hongkong a certain amount of imports seems to have found its way to India probably through devious routes.

When we analyse exports, we note the overwhelming significance of Indian cotton twist and yarn, apart from jute manufactures, both of which were absolutely essential commodities for Hongkong's war economy. Owing to wartime restrictions on Japanese imports into the U.K. there was a flood of orders for Hongkong's knitted articles which enjoyed a preference of 20 per cent in the U.K., provided the empire content was at least 50 per cent. This qualification was easily met, for Hongkong's factories used empire yarn most of which came from Bombay mills.

After the war, Hongkong faced the problem of rehabilitation of its local industries and resumption of its foreign trade. In 1946 there was a steady influx of not only Chinese refugee capital but also wealthy Chinese. Chinese interests that had accumulated large funds in the U.S.A. began to finance commercial shipments to Hongkong. Illicit trade between Hongkong and Shanghai started. Cotton yarn which came to China as part of UNRRA relief supplies found its way to Hongkong and Government had to ban exports of piecegoods woven from such yarn. Local industries needed raw materials, and India was expected to sell textiles.

For convenience of analysis we may divide the recent period after 1946-47 into three well-defined sub-periods : (*i*) 1947-48 and 1948-49—the period of the post-partition economic crisis in India which manifested itself externally in the severe balance of payments crisis leading to currency devaluation ; (*ii*) 1949-50 and 1950-51 — the period of the post-devaluation boom generated by the rearmament boom following the Korean war ; and (*iii*) 1951-52 and 1952-53—the period in which the collapse of the raw material boom, the U.S. embargo on trade with Hongkong and the blocking of the usual channels of Hongkong's *entrepôt* trade with China reacted adversely on Hongkong's foreign trade as a whole and hence on India's trade with Hongkong. The trends of India's export trade and import trade with Hongkong will be analysed below with reference to these sub-periods.

First, we shall study the trend of exports. There are certain staple commodities which Hongkong tends to import from India in spite of the severe contraction in Hongkong's foreign trade. The statistics of the export trade in these principal commodities are set out in the comparative table on page 86n.

The character of India's exports after 1946-47, however, clearly reflects the structural change in India's economy after the partition as the result of which India became more of an exporter of manufactured products and an importer of raw materials.

During the period 1947-48 and 1948-49 India experienced a fall of export capacity due, among other things, to the distortions in the Indian economy as the result of the partition and the current inflationary pressure. India faced an acute balance of payments crisis. India's exports to Hongkong declined by as much as Rs. 1 crore, the decline being mainly due to the sharp fall in raw cotton exports. The expansion of exports of cotton twist and yarn and

India's Exports to Hongkong of Principal Commodities

(Lakhs of Rs.)

	Sub-period I 1947-48	1948-49	Sub-period II 1949-50	1950-51	Sub-period III 1951-52	1952-53
(*i*) Coal and coke	14	25	37	38	48	57
(*ii*) Lac	19	11	8	13	27	17
(*iii*) Rubber manufactures	8	—	8	12	11	—
(*iv*) Cotton waste	1	18	10	8	20	1
(*v*) Cotton twist and yarn	—	—	505	534	22	143
(*vi*) Cotton piece-goods	2	—	178	223	67	74
(*vii*) Jute gunny bags	43	134	424	127	125	57
(*viii*) Gunny cloth	2	1	2			
(*ix*) Tobacco	19	6	35	12	111	35
(1) Total selected commodities	108	195	1207	967	431	384
(2) Raw cotton exports	260	69	7			
(3) Total of (1) and (2)	368	264	1214			
(4) Total of *all* commodities	409	313	1343			
(5) Percentage of (1) to (4)	25	62	80			
(6) Percentage of (3) to (4)	90	84	90			

cotton piecegoods was yet to materialise. Rubber manufactures also dwindled to nothing. The commodities which contributed to the expansion of exports were coal and coke, tobacco, and jute manufactures.

During the period 1949-50 and 1950-51 civil war in China, devaluation of the sterling area currencies, and latterly the post-Korean rearmament and restocking boom had their expansionary effects on Indian exports to Hongkong. We notice a phenomenal rise in the total value of exports of selected commodities. Almost the whole of this increase is accounted for by exports of cotton

manufactures (yarn and piecegoods) and by the increase in the total exports of jute manufactures. The civil war in China which was fast approaching its climax in 1949 raised the importance of Hongkong as a point of distribution. The blockade resulted in almost a complete cessation of direct liner sailings to China ports. The whole of China's import requirements (from both Communist-held and Nationalist-held areas) was thus bought from Hongkong. The bulk of China's exports also became imports into Hongkong for subsequent re-exportation.

The boom in trade is reflected in India's abnormal exports of cotton and jute manufactures. After devaluation in December, 1949 the price of Indian grey sheeting dropped from $ 46 to $ 44 per piece. The decline in shipments from Tientsin and Tsingtao, combined with the fall in price, resulted in large sales of Indian grey sheeting. That Indian yarn was much cheaper by comparison is proved by the fact that the Government of Hongkong imposed an embargo on September 1, 1949 on the import of Indian yarn to clear the Government stocks of 12,000 bales of Japanese, Italian, and Chinese yarn purchased at high prices by forcing local weavers to consume this yarn, the price difference being as much as $ 300 per bale. Very large orders were, however, placed by Hongkong merchants for Indian yarn for re-export. Indian yarn was obviously underselling any other yarn, and there was a suggestion that it was a case of dumping. The real reason seems to have been that the use of Indian yarn would have ensured cent per cent empire content for the finished commodity, whereas the use of non-'empire' yarn rendered the fulfilment of the condition of 50 per cent empire content under the system of empire preference almost impossible. The embargo was, therefore, a controversial measure.

The increase in India's exports of yarn tapered off towards the end of 1949. The Indian Government restricted exports with effect from November 1, 1949, although the restriction did not apply to finer counts. There was delay in the clearing of stocks, because merchants in Canton and South China began to experience difficulty in receiving supplies. Perhaps there was also overstocking. This situation continued into 1950. With the complete victory of the Communists in China by the end of 1949 the boom in Hongkong's China trade disappeared. For one thing, the People's government encouraged direct trading with foreign

countries. For another, it aimed at confining exports and imports to essential categories.

The situation was transformed after July, 1950. The improvement in the situation was due to (1) the rise of world prices and the return of the sellers' market after the outbreak of the Korean war and (2) the opening of the Pakistan market to Hongkong stocks. Exports of Indian cotton piecegoods to Hongkong, therefore, boomed. What was true of piecegoods was also true of yarn, but there was a decrease in the total value of exports of jute manufactures, and perhaps, a direct allocation and exports to China.

During the period 1951-52 and 1952-53 the collapse of the post-Korean boom synchronised with the U.S. embargo on trade with Hongkong. There is no doubt that after the establishment of the People's government in China, China's considerable demand, met by Hongkong, of consumer goods, equipment and replacements stimulated trade. The state-trading organisations bought on a large scale and paid good prices. A good deal of Hongkong's China trade could, however, be explained by stockpiling activities which were not peculiar to China alone and which were understandable in view of the world situation.

After China entered the Korean war (in November, 1950) the U.S. Government, along with Canada and Japan, imposed an embargo on the shipments of all 'strategic materials' to China, Hongkong and Macao (in December, 1950). The embargo was reinforced by the system of export licences introduced in the U.K. in June, 1951 on all goods exported to China or Hongkong, which was a completely watertight method of preventing export of items of assistance to China's military strength.[1] There was import licensing in Hongkong as a double check. The U.S. embargo and the parallel action taken by Britain led to disruption of contracts and a sharp recession in Hongkong's trade.

We shall now analyse India's import trade on the basis of certain principal commodities which have been imported into India even in the face of rigid import controls introduced for balance of payments reasons.

[1] Apart from rubber, the most urgent requirements of China affected by the embargo were petroleum products, transport equipment, electric generators and metal-working machine tools.

IMPORTS FROM HONGKONG
(Lakhs of Rs.)

	I		II		III	
	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
(*i*) Electric bulbs for torches	5	7	2	4	5	7
(*ii*) Electric lamps	68	76	131	—	46	68
(*iii*) Cassia	19	24	21	39	69	15
(*iv*) Cotton manufactures	—	15	—	—	3	—
(*v*) Raw silk	5	37	4	75	3	1
(1) Total of selected commodities	97	159	158	118	126	91
(2) Total of all commodities	204	248	267			
(3) Percentage of (1) to (2)	47	64	60			

Hongkong's locally manufactured torch bulbs have for many years been regularly imported into India, and India has been a principal market for the Hongkong product. In Hongkong the manufacture of torch bulbs depends mainly on manual processes; but although quality and finish are not up to the standard, yet they are very cheap and naturally find a good market in India. Electric lamps constitute another important category of imports. Exports of tin and brass torch cases were HK $ 20 million in 1949 of which the bulk was shipped to India.[1] India has also been an important consumer of cassia in recent years. Hongkong experienced a boom in exports of cotton piecegoods and knitted goods, such as singlets, shirts, shorts, etc. in 1949-50 because of the devaluation of sterling area currencies, which raised the prices of goods coming from the U.S.A. and Japan. An appreciable amount of such goods was imported into India in 1948-49, but there were no imports in 1949-50 presumably due to import restrictions. Raw silk imports were resumed on a fairly large scale in 1948-49. Fair quantities of raw silk were imported into Hongkong from Shanghai and Szechuan and part of these imports was re-exported to India.

The effect of the embargo on Hongkong's trade with the U.S.A. and the consequent tightening of control on trade with China

[1] There were other products of Hongkong's light-engineering industries, like vacuum flasks and enamelware, for which India was the principal market in 1947-48 and 1948-49.

naturally resulted in a drastic reduction in Hongkong's imports from China. This is reflected in the sharp decline in India's imports of raw silk from Hongkong in 1951-52, and the virtual disappearance of raw silk imports from Hongkong in 1952-53. Imports of cassia from Hongkong were strikingly larger in 1951-52, but they were reduced to comparative insignificance in 1952-53. In 1952-53 India showed no interest in raw silk in the Hongkong market because of the high prices quoted in comparison with Japanese export prices. The abnormal import of cassia in 1951-52 (in contrast with 1952-53) was due to increased availability of supply which forced Hongkong sellers to unload stocks bought earlier at high prices and brought about a drop in prices. It will be noticed that in 1951-52 and 1952-53 there were again large imports of electric lamps from Hongkong. With a fall in the cost of raw materials, the manufacturers had entered a phase of competition when drastic reductions, reflecting lower costs of production, were made in price. In 1952 India was the principal buyer of torch cases made in Hongkong.

PART II

INDIA'S TRADE WITH THAILAND AND NON-BRITISH COLONIES OF SOUTH-EAST ASIA (INDO-CHINA, INDONESIA)

CHAPTER 4

THAILAND

THAILAND differs from other countries of South-East Asia in many respects. By reason of her geographical position as a buffer state between British Burma and Malaya on the west and the south and French Indo-China on the east, her political independence was guaranteed by the great colonising powers during the period of their imperialist expansion in South-East Asia. In fact, after the renunciation of extra-territorial rights by the British in 1926, Thailand was able to enter into equal treaties with other nations.[1] Foreign capitalistic enterprise has not spilled over into Thailand to the same degree of penetration as into Indo-China, Malaya, Indonesia, or Burma, although Thailand went through the same process of commercialisation going on elsewhere in South-East Asia and also shared in this region's financial prosperity.[2] A considerable part of the country's resources still remains unexploited. Plantation agriculture has not dominated Thai agriculture. Although attempts have since recently been made to diversify Thai agriculture yet, by and large, Thailand is a country of rice furmers.[3] Rubber, tin and teak[4] are also other important products, but their importance is overshadowed by that of rice.

Fortunately for Thailand, the overwhelming importance of rice as a commodity of export after the second World War, as the

[1] Thailand was, however, dominated by China's influence in the field of trade and distribution and the British financial and commercial influence exercised through the close link of the Thai currency with sterling and the British trade focussed on Singapore.

[2] In Thailand an aristocratic feudal system facilitated the process of commercialisation of agriculture without foreign intervention. In Indonesia such intervention was essential.

[3] Non-rice crops occupy less than 3 per cent of the cultivated area. Curiously enough, conditions of rice farming are unfavourable in Thailand, as compared with Burma owing to the shorter rainy season and uncertainty of rainfall. Zimmerman thought that at least three-quarters of Thailand was not suited to rice cultivation. Irrigation works are needed for the stability and expansion of rice cultivation. Between 1910 and 1940 an additional 5 million acres were put under paddy cultivation by Thai farmers alone, foreigners having played no part in the supply of increasing volume of farm labour needed.

[4] Tin and teak production is mostly controlled by British capital.

result of the serious rice deficit in South-East Asia, enabled Thailand's rice economy to adapt itself to the requirements of the situation much better and much more quickly than other countries which have been traditionally exporters of rice. Since Thailand was immune from the ravages of war, even in 1946-47 the area under rice was 10.6 million acres (22 per cent more than in 1939-40). In fact, Thailand has been the only country to show a substantial increase in rice acreage in the immediate post-war period. The following table illustrates the increase in rice acreage in Thailand in recent years :

		Rice exports from Thailand	Rice exports from Burma	Rice exports from Indo-China
		(In thousand metric tons)		
1934-38 (Average)	...	1,388	3070	1320
1948	...	812	1230	190
1949	...	1215	1190	105
1950	...	1480	1187	121

That Thailand has gained from the full stimulus of the highly inflated price of rice is indicated by the fact that the price of Thailand rice (white, 25 per cent broken, ex-mills, Bangkok) was $ 140 per ton in 1949, $ 116 per ton in 1950 and $ 117 per ton in January-June, 1951, as compared with the agreement price of Canadian wheat quoted at $ 75 per ton in 1949, and $ 66 per ton in 1950 and January-June, 1951. Slow recovery of rice production in both Burma and Indo-China owing to civil disturbances and the comparatively quick recovery in Thailand put Thailand in a position of vantage with regard to price formation in the case of rice, although the ruling price of wheat exchange, trade control in Thailand was less stringent, and she had a free market in both dollars and sterling.

It was because of the recovery of rice production and the high price of rice that Thailand was able to convert an import surplus which emerged in 1946 and 1947 into an export surplus of $ 32 million in 1948 which increased still further in subsequent years. Thailand thus did not suffer from any shortage of foreign exchange, trade control in Thailand was less stringent, and she had a free market in both dollars and sterling.

Before the war a substantial percentage of Thailand's exports and imports was accounted for by intra-regional trade with what are known as ECAFE countries. In 1937-38, 48 per cent of

Thailand's imports was derived from the ECAFE region, and 25 per cent of the total import trade was channelled through Malaya. As much as 78 per cent of Thailand's exports was directed to the ECAFE region and 59 per cent of the total export trade was with Malaya. Rice formed 54 per cent of total exports, while tin and tin ore, rubber and teakwood accounted for 36 per cent.

During the first quarter of the present century Indo-Thai trade was confined to a very narrow range of products, Thailand's teakwood being exchanged for India's jute gunny bags, the demand for which kept pace with the increase of Thailand's rice production. In the 'thirties rice not in the husk emerged as a commodity which began to be imported into India and direct trade in cotton manufactures, apart from cotton manufactures imported into Malaya and re-exported to Thailand, began to increase in volume.

The changes in the composition of trade and fluctuations in its total value are indicated in the following comparative tables which present the trends of trade over the period covering the post-war boom, the depression of the 'thirties and the years immediately preceding World War II.

TRADE WITH THAILAND
(Thousands of Rs.)

		Pre-war 1909-10	Pre-war average
Imports from Thailand			
Teakwood	...	33,15	31,41
Other articles	...	67	3,39
Total	...	33,82	34,80
Exports to Thailand			
Gunny bags	...	22,32	27,14
Other articles	...	13,88	6,21
Cotton manufactures	...	...	10,75
Opium	...	...	18,84
Total	...	36,20	62,94

		Post-war boom 1925-26
Imports from Thailand		
Teakwood	...	6,40
Other articles	...	4,48
Total	...	10,88

	Post-war boom 1925-26
Exports to Thailand	
Gunny bags ...	56,93
Other articles ...	29,77
Cotton manufactures ...	29,03
Opium ...	60,00
Total ...	1,75,73

DEPRESSION

	Pre-war average	1932-33	1933-34	1934-3
Imports from Thailand				
Rice in the husk	...	...	1,65	20,06
Rice not in the husk	...	12,14	30,07	1,62,10
Teakwood	31,41	6,64	10,11	4,15
Other articles	3,39	3,55	2,92	7,56
Total	34,80	22,63	44,75	1,93,87
Exports to Thailand				
Cotton manufactures	10,75	7,39	9,87	10,64
Gunny bags	27,14	31,48	30,74	98,18
Opium	18,84	...	48,65	...
Other articles	6,21	6,60	3,56	6,00
Total	62,94	45,47	92,82	1,14,82

PRE-WORLD WAR II

	1935-36	1937-38	1938-3
Imports from Thailand			
Rice in the husk	12,81	...	4,72
Rice not in the husk	61,11	15	32
Teakwood	27	1,42	1,06
Other articles	6,91	1,71	3,32
Total	81,10	3,28	9,42
Exports to Thailand			
Gunny bags	72,79	29,01	52,62
Other articles	5,98	3,66	5,29
Other manufactures	12,24	14,20	11,73
Opium	...	...	...
Total	91,01	46,87	69,64

In view of the fact that the main export products of Thailand — rice and timber — were competitive with those of Burma which was part of India, India's trade with Thailand on the import side was small in magnitude before World War I. The trade not only had a static character but also actually showed a tendency to dwindle. In fact, in 1925-26, which was a year of the post-war boom, the total value of imports from Thailand was Rs. 10,88,000

as against the pre-war average of Rs. 34,80,000. Rice imports from Thailand which were stimulated later during the depression did not figure in imports in the early inter-war period.

As regards India's exports to Thailand, both gunny bags and cotton manufactures showed a strikingly rising trend in the early inter-war period. Total exports, unlike total imports, reached their peak level in 1925-26, a year of the post-war boom. This was the maximum figure ever attained during successive periods up to the outbreak of World War II.

Before the war (1910-1915) the average area under paddy in Thailand was 4.54 million acres. By 1921-25 the average had risen to 6.45 million acres. This substantial increase of rice production explains the increase in the purchases of jute gunny bags from Rs. 27,14,000 before World War I to Rs. 56,93,000 in 1925-26. The increase in Thailand's purchases of Indian cotton manufactures reflects India's growing trade in this line with South-East Asia as a whole and also the effect of the post-war boom in causing an increase in the quantity as well as the value of Thailand's purchases of cotton manufactures from India. The three-fold increase in the total value of exports of opium to Thailand, as compared with the pre-war average, also contributed to the large total value of India's exports in the boom year 1925-26.

India's trade relations with Thailand were resumed after the second World War in a new setting of post-war conditions which was in many ways unique. This new setting has to be explained before we can properly assess the probable trend of India's trade relations with Thailand. Before the second World War, Thailand was the only country, as much as 78 per cent of the exports of which was directed to what is now called the ECAFE region. Thailand's main export staple, viz., rice, met the food deficit of the rice-eating, plantation and mining economies of this region. Although Thailand did not belong to any of the preferential trade blocs of the imperialistic countries, yet Thailand's currency was closely linked with sterling; her trade was also mainly directed through the contiguous free ports of Singapore and Penang. Thailand also derived as much as 48 per cent of her imports from ECAFE countries, the most important supplying country being Japan; and her imports were also derived to a considerable extent through Singapore. After

the second World War, however, Thailand's quick economic recovery enabled her to earn valuable foreign exchange through exports of rice and other tropical products. Serious rice deficits in Asia strengthened her bargaining power. Thailand was thus able to earn both dollars and sterling on a large scale and was in a position to obtain her import requirements from the widest possible market.

Owing to current shortages in the sterling area markets Thailand was thus able to switch over to imports from the U.S.A. and subsequently from Japan. And, as is usually the case, the increase of imports from these two countries was also associated with an increase of exports to them. A trade agreement with Japan, of which more will be said below, ensured bilateral adjustment of trade between Thailand and Japan at a fairly high level of exports and imports, at any rate for a short period Thailand thus not only became a free market for dollars and sterling, but was also operating an 'open Trade Account' with Japan. The net effect of these developments has been the development of trade with both the U.S.A. and Japan at the expense of trade with other countries of the ECAFE region, excluding Japan.

In 1948, 46 per cent of Thailand's exports, as against 78 per cent in 1937-38, was directed to countries of this region, although this was offset by U.S. rice purchases in Thailand for Japan and China. After 1948 this percentage increased owing to the expansion of trade with Japan, but there is no doubt that it was much below the pre-war figure. It appears that Thailand's trade with the free port of Hongkong increased after the war owing to the change in the direction of trade.

An important aspect of these developments has been the keen interest which American capitalists are taking in developing Thailand as an important source of supply of tropical raw materials, some of which are 'strategic' in character. The impetus to this came after the devaluation of the sterling area currencies and during the period of the stockpiling boom. Prices of primary products rose to high levels after the devaluation of these currencies not only because of devaluation, but also because of shortages in the face of abnormally heavy demand.

Undeveloped resources of Thailand were (and still are) a challenge, because many of the raw materials bought in

Ceylon, Malaya, Indonesia, Pakistan, or India could be produced under favourable conditions in Thailand as well. But one distressing aspect of the colonial character of economic development in South-East Asia is parallel intensive development of production of similar raw materials in neighbouring colonial territories belonging to the same natural region, which makes contiguous economies under different political regimes competitive in the matter of concentration of production on a few industrial raw materials. Economic rivalry based on political rivalry has enhanced the competitive character of production in these economies, whereas co-ordination of effort and resources on a regional basis would have yielded much better long-term results in terms of welfare. It appears that Thailand has now entered a phase which has characterised economic development in the neighbouring countries of Burma, Malaya, and Indonesia.

In 1949 the U.S.A. showed great interest in importing larger quantities of seedlac, pepper, bone grist, gums, and hides and skins from Thailand in addition to tin, rubber, and other raw materials. The following figures would be found interesting :

	Imports from Thailand to U.S.A. (In U. S. dollars)	
Seedlac	1,085,910	3,019,430
Hides and skins	684,248	1,202,505
Crushed bones	45,000	50,000
Gums and resins	21,085	104,695

In 1949 the U.S.A. imported 75 million lbs. of rubber from Thailand, as against 19 million lbs. in 1948. The U.S.A. also encouraged exporters of pepper by suggesting that they plant larger areas with new strains and use improved methods of cultivation in order to step up production. There was also an attempt to obtain tapioca flour from Thailand for the U.S.A's textile industry and also for domestic consumption. In exchange, the U.S.A. exported to Thailand in 1949 electrical goods, mining and dredging equipment, industrial machinery, agricultural implements and tractors. Steel and machinery were also exported from the U.S.A. to Thailand. Over 200 commercial travellers visited Thailand in 1949 and some of them inspected Thailand's raw material supplies. Officers experienced in the administration of the Food and Drugs Act of the U.S.A. were deputed to Thailand

to supervise and set up export standards for seedlac, shellac, pepper, kapok, rubber, and rice. Thailand was thus being assisted to develop as an important competitor of India in the American market.

While some of Thailand's exports became competitive with similar exports from India in the dollar market, Japan succeeded in almost recovering her pre-war hold on Thailand's market for consumer goods. This was in accordance with the policy pursued by the SCAP authorities in respect of liberalisation of Japanese export trade. In 1949 the SCAP authorities were progressively relaxing restrictions on Japan's export trade till finally the floor prices of Japanese manufactures were abandoned. The Japanese trade drive was encouraged by the SCAP authorities permitting the Bank of Japan to open a branch in Bangkok, and by the resumption of regular cargo and passenger service between Bangkok and Japan. In November, 1949, the Government of Thailand took the important step of making dollars available without limit at 20 ticals per dollar for purchase of goods from Japan. (Earlier importers had to buy dollars at the open market rate ranging from 20.75 to 22.75 ticals per dollar.) This at once resulted in the price of Japanese goods going down by 10 to 15 per cent.

Large orders were placed in Japan for piecegoods, crockery, enamelware and earthenware—commodities which India was also exporting to Thailand. The trade agreement concluded in 1949 provided for the exports from Thailand to Japan of rice, pulses, cereals, gum, seedlac, sticklac, shellac, turpentine, timber, hides and skins, oilseeds, and metals and ores and for imports from Japan into Thailand of locomotives and rolling stock, piecegoods (cotton and rayon), cycles, enamelware, crockery and glassware, machinery, hardware, paints and varnishes, and heavy and light chemicals.

In October, 1949, Japanese shippers reduced their prices by about 20 to 30 per cent for rayon, nylon and other artificial goods and 10 to 20 per cent for cotton piecegoods. These reductions offset the premium on exports enjoyed by sterling area countries after devaluation. It was estimated that orders for more than two million yards of textiles were placed in Japan in October, 1949. Indian textiles had some chance of selling in Thailand after November, 1949, when export prices of textiles

in Japan were revised upwards. But by 1950 Thailand's market was glutted with Japanese goods.

By May, 1950, the dumping of Japanese goods was so enormous that selling at anything up to 4 per cent loss was the normal feature of the market in most lines. In the circumstances, either Japanese imports had to be allowed to be re-exported to the neighbouring countries or the issue of imports had to be slowed down. As the Government of Thailand did not want Japanese goods bought for dollars to be sold for sterling, the market was stabilised by slowing down the flow of Japanese imports.[1]

The situation in many ways was transformed after the outbreak of the Korean War. The uncertain character of the stockpiling boom had made the American interest in raw material production in Thailand an uncertain element. After the war, Thailand's tin ore trade, for example, was diverted from the Malayan smelters to Texas as the result of Thailand's dollar shortage, which obliged the Thai Government to offer special incentives to tin ore exporters who exported tin ore to be smelted in Texas under the ambitious stockpiling programme of the Reconstruction Finance Corporation. But the system of payments for tin ore was unsatisfactory. Tin purchases were paid for one month after the arrival of the ore in Texas and at prices prevailing there on that date. There was thus a time lag of two to three months between the date of shipment and the date of settlement of prices. Losses reported to be 2 million ticals due to kapok seeds being sent in place of pepper and waste paper and other things instead of rubber in 1950 perhaps chilled the enthusiasm of the American importer for exploring the Thai market as a source of supply in preference to other traditional sources.[2] Hence, in the beginning of 1950, Thai exporters were reverting to their old and traditional markets in Penang and Singapore.[3]

Japan as a traditional supplier of low-income goods to Thailand could have been more successful in laying the foundation of a

[1] The situation was complicated by the tightening of the money market due to the fact that the Thai Government owed over 500 million ticals to rice exporters.

[2] In the middle of 1950 the U.S.A. market was supplied by Argentinian exporters of hides and skins, and Thailand's exports (which were worse in quality) dropped considerably.

[3] Early in 1950 the Reconstruction Finance Corporation reported a loss of $ 18,500,000. The stockpiling of tin was also stopped temporarily.

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two-way trade. But the Thai-Japanese barter trade agreement providing for 45 million dollars worth of goods to be supplied by each country could not be fully implemented. Thailand supplied 36 million dollars worth of rice till the end of June, 1950 ; and she tried to export in large quantities commodities other than rice. But Thai soyabeans were costlier than Manchurian supplies. Teak, pepper, hides and skins, and sticklac were not found very acceptable. Castor oil and castor seed were found to contain many foreign ingredients and a high percentage of acid and water content. Orders for these two commodities were, therefore, not repeated. On the other side, Japan exported to Thailand goods worth 32.37 million dollars, of which textiles accounted for 83 per cent and glass and glassware, enamelware, sewing machines, electrical goods, metal products, machinery, chemicals, etc. accounted for 17 per cent. The Japanese tried to secure more of rice, so that Thailand's exports to Japan could reach the stipulated figure of 45 million dollars, but they failed to obtain satisfactory terms as regards price and delivery dates.

These developments somewhat strengthened the basis of Indian trade with Thailand. The following tables indicate the trends of trade in the post-war years :

I

EXPORTS FROM INDIA TO THAILAND

		Cumulative total April-October, 1948 (Value in Rs.)	Cumulative total April-September, 1949 (Value in Rs.)
1.	Fruits and vegetables ...	600	—
2.	Spices ...	974	17,93,108
3.	Tea ...	8,895	5,100
4.	Gums. resins and lac ...	12,03,460	8,99,319
5.	Hides and skins ...	—	89,974
6.	Metallic ores, scrap iron and steel	300	1,113
7.	Oils ...	{ 41,680 6,959	{ 1,15,154 9,783
8.	Cotton ...	8,828	18,568
	Miscellaneous ...	1,868	27,984
9.	Apparel ...	2,26,262	66,895
10.	Chemicals, drugs ...	50,804	20,477
11.	Cutlery, hardware ...	14,862	73,892
12.	Glassware, earthenware ...	—	1,350
13	Dyes and colours ...	1,255	380
14	Machinery ...	45,320	1,883

			Cumulative total April-October, 1948	Cumulative total April-September, 1949
			(Value in Rs.)	
15.	Metals	...	9,546	850
16.	Paper and pasteboard	...	2,665	—
17.	Rubber goods	...	48,260	12,084
18.	Cotton yarn and manufactures	...	7,72,200	30,19,359
19.	Jute yarn and manufactures	...	1,17,81,941	1,16,27,699
20.	Silk yarn and manufactures	...	5,702	240
21.	Woollen yarn and manufactures		4,466	3,972
22.	Other yarn and textiles	...	—	12,575
23.	Miscellaneous	...	2,24,363	2,63,780
24.	Postal articles	...	24,453	—
	Total	...	1,44.87,633	1,80,65,367

II

Imports from Thailand to India

1.	Grain, pulses, and flour	...	2,43,43,777	5,84,98,949
2,	Provisions and oilman's stores	...	13,098	—
3.	Spices	...	15,468	—
4.	Non-metallic mining and other products	...	2,887	14,619
5.	Gums, resins and lac	...	10,67,800	3,60,674
6.	Metallic ores, scrap iron, etc.	...	25,427	—
7.	Hides and skins	...	1,52,358	—
8.	Wood and timber	...	20	8,89,117
9.	Apparel	...	20	1,530
10.	Cutlery, hardware, etc.	...	931	762
11.	Dyes and colour	...	8,152	3
12.	Furniture and cabinetware	...	1,289	9,432
13.	Electrical goods	...	—	20
14.	Glassware, earthenware	...	402	55
15.	Hides and dressed leather	...	257	391
16.	Vehicles	...	2,001	5,009
17.	Other yarn and textiles	...	—	120
18.	Miscellaneous	...	479	1,447
19.	Postal articles	...	90	—
20.	Articles imported on baggage	...	3,820	5,286
	Total	...	5,56,38,373	5,97,87,297

III

Indian Exports of Principal Commodities in 1949-50 Compared with 1948-49

			1948-49	1949-50
			(In thousands of Rs.)	
Spices	...	...	Not separately available	17,93
Tea	...	...	„	75

	1948-49 (In thousands of Rs.)	1949-50
Gums and resins	22,65	12,53
Hides and skins	Not separately available	90
Oils	73	1,92
Raw cotton	Not separately available	4,36
Seeds	"	14
Apparel	"	1,59
Chemicals—drugs and medicines ...	53	39
Cutlery, hardware	39	1,41
Machinery	60	46
Cotton yarn and manufactures ...	15,98	1,30,88
Jute	1,84,80	2,24,88
Grand Total ...	2,37,16	4,08,29

IV

Increase of Indian Exports of Certain Groups of Commodities in April-July, 1950 Compared with April-July, 1949

	April-July, 1949 (In thousands of Rs.)	April-July, 1950
Tea	—	25
Oils	1,05	1,75
Cotton	—	2,18
Apparel	47	71
Cutlery, hardware	53	88
Machinery	—	55
Rubber manufactures	9	1,09
Cotton yarn and manufactures	15,89	28,24
Jute	87,41	1,05.67

V

Exports from India to Thailand

(Value in Rs. lakhs)

	1950-51	1951-52
Vegetable oils	1	—
Boots and shoes	2	—
Rubber manufactures	3	—
Cotton manufactures	2,13	—
Gunny bags	2,22	32
Others	35	7,84
		56
Total ...	4,76	8,72

VI

Imports from Thailand into India

(Value in Rs. Lakhs)

			1950-51	1951-52
Rice	...	...	7,40	11,18
Gums and resins	...	...	4	—
Lac	...	...	43	—
Wood and timber	...	...	11	—
Others	...	...	17	46
	Total	...	8,15	11,64

We may first analyse the trends of India's exports to Thailand after the second World War. In April-October, 1948, the main commodities in the order of importance in terms of total value exported were jute yarn and manufactures, gums, resins and lac, cotton yarn and manufactures, and apparel.

Larger jute exports were accounted for by the boom in rice trade. The increase in exports of cotton yarn and manufactures was remarkable in view of the Japanese trade drive in piecegoods. The increase in exports of cutlery and hardware was also a significant trend. Exports of rubber manufactures and certain kinds of machinery were also a new and encouraging trend. But dyes and colours, drugs and chemicals, glassware and earthenware, and paper and pasteboards exported by India in 1948 had little chance of gaining a foothold in the Thai market in the face of Japenese competition in 1949.

After the outbreak of the Korean war, the uncertainty of delivery dates, the increasing risks for carriers and other effects of the Korean war contributed to turning the attention of Thailand's importers towards India. The sharp rise in the prices of consumer goods created a situation in which the Government of Thailand was obliged to liberalise imports, promise release of 10 million ticals worth of cotton textiles, and arrange for immediate imports of essential commodities. Prices of Japanese textiles had risen in the meantime by as much as 60 per cent in August, 1950. Indian textiles became cheaper.[1] Consequently,

[1] Apart from the higher cost of cotton, the other important cause of higher prices of Japanese textiles was the heavy orders from Pakistan, Ceylon, Indonesia and other countries.

the heaviest orders ever recorded for Indian textiles were placed during this month, and many leading Indian merchants flew to India to book orders for the supply of Indian textiles. The increase in India's exports of textiles gradually tailed off after some time, because of restrictions placed by the Government of India on exports of certain classes of textiles (Indian khaki and white drill which were most in demand) and because of liberalisation of imports from Japan into Thailand.

It may be pointed out that Thailand is aiming at local production of cotton yarn, jute and also gunny bags. The Bangkok Cotton Mills, which have put into operation 10,000 new spindles in addition to the existing 9,000, will have a daily output of 50 bales of cotton yarn of 400 lbs. each, which will meet about 80 per cent of the yarn consumption in Thailand. A British gunny sack factory is expected to produce 2,000,000 bags for which 5,000 tons of raw jute will be required annually. The Ministry of Agriculture has been subsidising the cultivation of jute. The war veterans' organisation has submitted a plan for the construction of a second jute mill. Jute requirements of these mills may be met by importing raw jute from Pakistan. Whether these developments which owe their origin to high prices and restricted availabilities will result in significant self-sufficiency in gunny bags and cotton yarn is doubtful. But to the extent that such self-sufficiency is attained, India's exports of these two commodities to Thailand will be adversely affected.

We now turn to the trends of India's imports from Thailand. Since rice was the only significant commodity imported from Thailand into India, it would be necessary to review the position of the rice trade during the post-war years.

RICE IMPORTS FROM THAILAND

		Rs.
April-October, 1948	...	2,43,43,777
April-October, 1949	...	5,84,98,949
1950-51	... ...	7,40,00,000
1951-52	... ...	11,18,00,000

After the end of the war India entered into a tripartite rice agreement (signed in May, 1946) with Thailand, on the one hand, and the U.K. on the other, for the export from Thailand of 1.2 million tons of rice at £ 12-14s per ton over a period of one

year.[1] Subsequently, the price to be paid was raised on two occasions.[2] Arrangements for sale of rice by agreement between Thailand, on the one hand, and the U.S.A. and the U.K. on the other, were superseded by international allocations which have now ceased.

In Thailand there is government control of both internal and external movement of rice. Although initially government control was needed to ensure Thailand's fulfilment of international obligations with regard to the supply of rice for export, yet the Government has been securing large revenue from the difference between the price charged from the rice importer and the price paid to the rice farmer. After the termination of the control system operated by the International Emergency Food Council on 31st December, 1949, Thailand allowed export of rice on a quota basis and issued permits to private traders. The quota for each importing country was fixed on the basis of the previous year's record.

India's position was adversely affected by the preference being given in permits to traders exporting to the dollar area and by the further incentive that such traders will not be required to surrender a certain proportion of their earnings of foreign exchange as in the case of exporters of tin and rubber. The F.A.O. experts were advising Thailand to keep the price of rice reasonably low. But since State trading in rice was a source of profit, both Burma and Thailand co-ordinated their price policies to reap the highest returns ; in fact, in 1950 Burma was reported to have raised the price of rice by £ 2 to £ 3 in order to give Thailand an advantage in negotiating her rice deals. Out of £ 38,250,585 earned by Thailand by selling rice in 1949, India's contribution was £ 12,446,510. As the table above shows, India's rice imports in 1949 were quite large.

During the first quarter of 1950 Thailand's Ministry of Commerce seemed to be insisting on the exporters of rice paying in U.S. dollars, irrespective of the destination of shipments. This seemed to push up the exchange rate for dollars and raised prices. During the first 8 months of 1950 Thailand exported 960,000 tons out of the target of 1,200,000 tons of rice for the whole year,

[1] India agreed to help Thailand meet the situation created by the shortage of rolling stock for the movement of rice from the North-East Provinces by supplying 25 locomotives and 600 wagons.

[2] There was a premium of £ 3 per ton for rice delivered before May, 1946.

which was a post-war record. Stockpiling of rice (in anticipation of sources of supply being cut off) was an important factor governing the high level of demand for rice during this period. Moreover, the higher purchasing power which accrued to the basically rice-eating people in countries which produced strategic raw materials (Malaya, Ceylon, Indonesia), as a result of the shift in the terms of trade in favour of these rice-deficit countries, was also an important factor which raised their import demand for rice and pushed up rice prices. Earlier in the year India had restricted her purchase to Burma rice, but later she purchased 80,000 tons of rice from Thailand on a rising market. In 1950 although there was a drastic reduction in India's import demand, the total value of imports from Thailand was kept at a high level owing to the rising export prices of rice.

In 1951 widespread crop failure greatly increased India's import requirement of foodgrains including rice. Contracts for grain purchase were made to cover the estimated deficit of 6 million tons. Imports of rice in 1951 were thus expected to reach 1.1 million tons, as against only 0.3 million tons in 1950. Since in contrast with most other commodities rice had become increasingly scarce in 1951, the export prices of rice were higher. Export prices of rice in Burma and Thailand were thus raised by 5 to 8 per cent in 1951.

It is well known that these prices were determined by hard bargaining or on the basis of barter deals between governments of rice-exporting and rice-importing countries. India's bargaining power seemed to rest mainly on gunny bags supplied to Thailand. On the other hand, the expansion of Japan's trade with Thailand enabled Japan to divert considerable rice supplies from Thailand which were paid for in hard currency. But it must not be forgotten that India's share in Thailand's rice exports has been the largest in recent years as the following table shows :

THAILAND'S EXPORTS OF RICE
(Thousand metric tons)

	1948	1948	Jan.-June, 1950
India ...	165.8	313.7	—
Malaya ...	155.1	282.0	179.9
Japan ...	—	112.6	264.0
Total to all countries ...	811.7	1,215.2	715.8

Our review of the trends of Indo-Thai trade given above should not create an impression that India's exports show lack of diversification. In 1950 products of Indian cottage industries were introduced for the first time in Thailand's market. India met 50 per cent of Thailand's requirement of absorbent cotton, the demand for which was increasing. During this year India supplied 400 out of 3,478 sewing machines imported into Thailand. There was demand for Indian paints and varnishes. There was increasing demand for Indian electrical goods. Increase of oil exports from India was another important feature. There is a large demand in Thailand for rubber boots and soles, hospital equipment made of rubber, etc., which India can supply. There are also prospects for Indian exports to Thailand of hardware and rice-milling and agricultural machinery. The principal limiting factor is the degree of severity of Japanese competition.

Before the second World War India had an export surplus with Thailand which never exceeded Rs. 60 lakhs in any year except in 1934-35 when there was an import surplus of Rs. 79 lakhs and in the boom year of 1925-26 when the export surplus reached the abnormally high level of Rs. 164.8 lakhs. During the last three years owing to heavy rice imports, India has been having an abnormally heavy import surplus every year in relation to Thailand.

BALANCE OF TRADE
(In Lakhs of Rs.)
(Favourable + or Unfavourable —)

Pre-war Average	+ 28.1
Post-war boom (1925-26)	+164.8
Depression 1932-33	+ 12.8
1933-34	+ 48.0
1934-35	— 79.0
1935-36	+ 9.9
1937-38	+ 43.5
1938-39	+ 60.2
1949-50	—816.0
1950-51	—339.0
1951-52	—292.0

It is doubtful, however, whether this trend will establish itself, if only because India's rice imports from Thailand will decrease substantially in coming years.

CHAPTER 5

INDO-CHINA

INDO-CHINA constitutes a young and immature economy with a predominantly subsistence type of agriculture mainly devoted to rice farming, with an average density of population higher than that of Burma and Thailand and with only 8 per cent of the entire land area settled and cultivated. In this country population and economic activity are concentrated on the sprawling coastal fringes and the two remarkably fertile delta regions, the Red River delta in the north and the Mekong delta in the south embracing Tonking and Cochin China respectively. The highest densities of population per acre of paddy land are found in Tonking and Annam, the narrow coastal fringe along the South China Sea.

Both Tonking and Annam have felt the southward pressure of migration of the rural population from the overcrowded areas bordering on South China. This pressure has not spent itself in the Tonking and Annamite lowlands. The stream of migration has also crept southward. In fact, there are 4 million Annamites now on the rice lands of Cochin China.

Cochin China is a recently developed rice-growing area. Since 1875 the area under cultivation in Cochin China has increased four times and most of it is under paddy. Before the second World War 5.5 million acres were under paddy in Cochin China and 2 million acres in the adjoining lowlands of Cambodia. The density of population per cultivated acre of paddy is much lower in Cochin China and Cambodia than in Annam or Tonking. The reason for this difference lies in the creation under French rule of conditions of commercial agriculture which was designed to produce a large marketable surplus of rice. Before agricultural development began, large personal land-holdings were allotted to single owners under the scheme of French colonisation. Only citizens, subjects or *protégés* of France could hold concessions, so that both the Chinese and white foreigners were excluded from the field of agricultural enterprise. French landowners introduced the system of cultivation through tenant

farmers. In view of the extreme land hunger of the immigrants from the north, a class of floating agricultural population was ready at hand to agree to share-cropping tenancy under which the tenant paid 50 per cent of the gross produce as rent in kind, consumed most of the balance in his family and supplemented his cash income by temporary work as wage-earner. While this system created a class of peasants, who were worse off than pure plantation workers in certain parts of South-East Asia, and were exploited by the Chinese and Indian trader-cum-moneylender who gave loans and bought the small farmer's rice, it nevertheless created a large marketable surplus of rice for export.

It must be pointed out, however, that the most serious commercial defect of Indo-China's rice is the mixture of numerous varieties of rice (more than 300 in northern Indo-China) in consignments. Since the small farmer's supplies are collected and mixed by the rural trader, rice arriving at the factory varies widely in colour, size, hardness of the grain and adherence of the husk. And machine-processing results in the appearance of a heterogeneous product containing a large part of broken and waste rice. Indo-China's rice is thus inferior to Burma's or Thailand's rice.

While two-thirds of the large plantation holdings of Frenchmen were rented out to share-croppers, only one-third was devoted to rubber, coffee, and tea production. Rubber is grown in plantations of eastern Cochin China and Cambodia which numbered 350 in 1940. Rubber production is aided by the State and has been primarily linked with the tariff-protected market of France rather than with the world market. Coffee and tea plantations have little significance as sources of export, only a small fraction of the total outturn being exported.

Before the second World War, taking the 1932-36 average, the proportion to total export values of Indo-China's export staples was 49.2 per cent for rice, 14 per cent for corn (maize), 8.4 per cent for rubber, 5.6 per cent for coal, 4.7 per cent for dried fish, 1.4 per cent for pepper and 1.1 per cent for raw hides. Thus rice, maize and rubber accounted for 71.6 per cent of the total value of exports. The pace of Indo-China's economic activity and foreign trade is set by the marketable surplus of rice. This provided 90 per cent of Indo-China's food and 70 per cent of the exports. In 1940, of the 15 million acres of cropped land,

12½ million acres were under paddy which yielded 6 million tons of cleaned rice. Taking into account the fluctuations of climate and yield and the nutritional deficiency of the Annamite's average daily food consumption, it is clear that Indo-China's foreign trade rests upon a very narrow margin.

It is clear from the foregoing review why India's trade relations with Indo-China should have been of a very slight and restricted character. Indo-China's rubber and maize have had no market in India. India bought, in the past, small quantities of rice, and Indo-China's rice exports have gone either to France or to the neighbouring countries of Japan, China and Indonesia. Besides, rice imported from Burma and Thailand has always been preferred for many reasons to Indo-China's rice. On the other hand, Indo-China's imports of jute manufactures, including twist and yarn, have always been indispensable. The same was the case, unfortunately, with opium in the past. On the whole, therefore, India has been one of the few countries in South-East Asia which has normally had a sizable export surplus with Indo-China.

India's economic and cultural relations with Indo-China (as also with Thailand and Indonesia) go back to the early years of the Christian era when priests, merchants and adventurers left their impress on south-eastern Indo-China and helped the rise and growth of the *Champa* empire in the 10th century, and the *Khmer* empire in the Mekong delta in the 10th to 13th centuries. The emigrants were Indians from Bengal and the Coromondel coast, and both ethnically and culturally the Cambodian tradition bears the impress of the ancient Hindu influence, just as in Tonking and Annam Chinese influence has been the most powerful leaven.

In comparatively recent times, as already explained in the previous chapters, Indians have gone to South-East Asia in a different rôle as intermediaries in the chain of colonial economic enterprise which followed in the wake of empire-building in this region. While Chinese enterprise has entrenched itself irrespective of the boundaries of the three empires which have coalesced here, Indian enterprise has been largely concentrated in the British

colonies. But it has not been entirely absent in Indo-China, although it is farthest from India. Before the war Indians from French India numbering about a thousand lived in the towns of Indo-China, where they were engaged in textile trade, and as brokers and money-lenders. There were also 6000 Asian foreigners, mostly Indians, hailing from Madras and Sind, almost all of whom resided in Cochin-China and Cambodia and were brokers or money-lenders. Indian capital together with Chinese capital has always played an extensive part in the trade in rice, maize, silk and tropical products. *Chettiar* bankers from South India have performed in Indo-China the familiar function of financing the rice harvest on the basis of loans given on personal security and at exorbitant rates of interest. The findings of a government enquiry into agricultural indebtedness during the depression showed that the total amount of indebtedness to *Chettiars* was 9,617,500 piastres out of the total indebtedness of 35,436,000 piastres.

The following table illustrates the trend of India's trade relations with Indo-China up to the outbreak of the second World War :

INDIA'S EXPORTS TO, AND IMPORTS FROM, INDO-CHINA
(Thousands of Rs.)

Imports from Indo-China	Pre-war average	1922-23	1923-24	1925-26	1932-33	1933-34	1936-37	1938-39
Rice	97	98	3,25	7,12	18,39	16,39	37,15	8,61
Others	4				1,47	2,40	3,51	5,32
Total	1,01	98	3,25	7,12	19,86	18,79	40,66	13,93
Exports to Indo-China								
Raw cotton	1,63	—	—	—	2,86	16,50	27,21	17,21
Jute manufactures	32,57	43,12	38,14	58,14	22,76	17,31	54,74	49,76
Opium	29,07	95,81	124,49	70,16	11,24	24,00	—	—
Others	3,48	48,02	76,49	103,52	84	82	1,13	1,27
Total	66,75	1,86,95	239,12	231,82	37,70	58,63	83,08	68,24
Balance of Trade	+65,70	+1,85,97	+235,87	+324,70	+17,84	+39,84	+42,42	+54,31

Before the first World War, the share of the Far Eastern countries in Indo-China's total trade was greater than that of the metropolitan country. During the war and up to 1920, owing to economic dislocation and preoccupation of France with her own defence, the Far East increased its lead. After 1920 the share of the latter began to decrease till in 1930 the share of France was equal to that of the Far East in Indo-China's total trade. After 1930 France's share went on increasing.

The reason why the total trade of the Far Eastern countries with Indo-China steadily declined after 1920 is to be found in the policy of tariff assimilation followed by the metropolitan power in relation to her colony. Indo-China's imports of manufactured products (largely textiles) were subject to high duties if they came from foreign countries. On the other hand, Indo-China's raw materials imported into France were subject to relatively low duties. Moreover, European countries which obtained reciprocal tariff concession in the form of exceptions made to the General Tariff gained an advantage in their trade with Indo-China, whereas goods coming from countries of the Far East, including India, were subject to the General Tariff. Thus the latter bought more from Indo-China than it was able to sell to it, and France was able to sell more to Indo-China than it bought from it. Hence, Indo-China's export surplus with the Far East paid for her import surplus with the mother country.[1] It is interesting to note that the trend of India's trade with Indo-China was similar to that of France's trade with Indo-China and quite unlike what we have noticed in the case of Far Eastern countries in general. This was due to the fact that India's trade with Indo-China was restricted to indispensable categories.

India's exports to Indo-China consisted mainly of raw cotton, jute manufactures, opium, and other commodities. Indo-China's first cotton spinning mill started production in Haiphong in 1900. But Cambodia's cotton production was still insufficient and had to be supplemented by cotton imports from India and the U.S.A. As a matter of fact, although cotton is a product of family cultivation in small plots almost all the raw cotton used in Tonking mills came from India, the U.S.A. or China before the second

[1] During the depression the increasing poverty of the Far Eastern countries restricted their purchases from Indo-China, so that Indo-China was increasingly dependent for her exports and imports upon the mother country's economy.

World War. India's share was one-third of the total imports of raw cotton into Indo-China. India's cotton piecegoods had no market at all in Indo-China. Indo-China's imports of better grade of cotton goods were mostly supplied by France. India's jute manufactures were, however, indispensable for bagging rice for the market. The quantities of jute manufactures exported to Indo-China kept pace with the expansion of Indo-China's rice exports. The peak year of exports of jute manufactures, so far as the total export values are concerned, was 1925-26, a year of post-war boom. India's exports of opium which were valued at Rs. 1,12,49,000 during the post-war boom of 1923-24—a record figure for any commodity ever exported from India to Indo-China—disappeared by 1936-37.

India's imports from Indo-China consisted mostly of rice. The sharp variations in import demand were largely determined by the state of the rice harvest in India including Burma, the relative success of the harvest in Indo-China and Thailand, and the level of rice prices as determined largely by the Chinese demand for Indo-China's rice. It is noteworthy that the value of rice imported from Indo-China increased tremendously during the depression. A similar trend, it will be recalled, was noted in the case of rice imports from Thailand during the same period. Increased output and exports during the depression must have resulted in the dumping of rice surplus at low prices on the Indian market.

The second World War and its aftermath have created in Indo-China an economic situation analogous to what has been faced by the neighbouring countries of Burma and Indonesia. The narrow margin on which Indo-China's export trade has always rested has shrunk considerably in the post-war period. There was a drastic decline in exports of rice from 1,290 thousand metric tons in 1934-38 (average) to 191 thousand metric tons in 1948 and barely 105 thousand metric tons in 1949. Fortunately for Indo-China, rice exports have yielded the first place of importance to rubber.

While exports have lagged behind, the quantum index of imports rose considerably from 1947 onwards and in 1948 it exceeded the pre-war level. Exports paid for only about one-half

of imports in 1947 and 1948 and less than one-half in 1946 and 1949. The large volume of imports is really explained by the requirements of capital goods for reconstruction, needs of the civilian population, and the exigencies of warfare in Indo-China. The stimulus to imports was, however, derived from the over-valuation of the piastre in relation to the currencies of two countries which are now the main sources of supply of imports, viz., France and the U.S.A.

One consequence of these developments has been the acceleration of the pre-war trend towards diversion of Indo-China's foreign trade away from the ECAFE region to Europe and to the U.S.A., as the following table shows :

	OEEC Countries		ECAFE Countries		U.S.A.	
	Share of Indo-China's Exports	Share of Indo-China's Imports	Share of Indo-China's Exports	Share of Indo-China's Imports	Share of Indo-China's Exports	Share of Indo-China's Imports
			(Percentages)			
1938	51	35	24	26	8.5	5
1947	46	56	36	13	7	19
1948	44	68	29	10	2	13
1949	48	75	30	9	1	9
1950	42	78	24	7	20	6

It is clear that Indo-China's exports have been diverted to a very great extent to OEEC countries and the U.S.A. The increase in the U.S.A.'s share of exports is explained by her rubber purchases from Indo-China. The shares of both OEEC countries and the U.S.A. in Indo-China's imports have likewise increased considerably.

India's trade with Indo-China has again not conformed to the general trend noted in the case of ECAFE countries. The following tables would be found interesting as showing the post-war trends of trade :

India's Imports and Exports
(Lakhs of Rs.)

	1949-50	1950-51	1951-52
Imports	Negligible	Negligible	Negligible
Exports	2,02	69	68
Re-exports	10	6	4
Balance	+2,12	+75	+72

Composition of Trade
(Value Lakhs of Rs.)

	1950-51	1951-52
Exports to Indo-China		
Apparel	7	—
Gunny Bags	57	62
Others	5	6
Total	69	68
Imports from Indo-China		
Vehicles	3	
Machinery	1	
Others	2	
Total	6	

CHAPTER 6

INDONESIA

LIKE Burma, Ceylon and Malaya, Indonesia has also developed as an export-oriented colonial economy. But in Indonesia plantation agriculture does not dominate tropical agriculture to the same extent as it does in other parts of South-East Asia. Here there is a much harder and more stable core of peasant farming, which has taken advantage of the possibilities of raising cash crops opened up by the readily accessible, large export markets for tropical products.

Historically, the development of peasant farming on the basis of cash crops may be traced to the Culture System (introduced in 1830 and withdrawn in 1870) under which Javanese farmers were forced to devote a part of their land and labour for raising, under Dutch supervision, prescribed export crops—sugar, coffee and indigo—and which not only gave the Dutch Government a huge revenue surplus but also encouraged production for export amongst self-contained village communities. The Indonesian peasant farmers now produce large surpluses for export, over and above local needs, of coconuts (copra), coffee, pepper, tapioca, tea and kapok. Vast areas of rubber plantations in Borneo and Sumatra are owned by Indonesian smallholders who raise considerable amounts of rubber purely as a cash crop.

In Indonesia the peasantry forms the bulk of the population. More than 70 per cent of those in recognized trades are engaged in agriculture. Besides producing export crops, like copra, tea, pepper and kapok, the Indonesian farmers raise the main food crops (rice, maize, tapioca, soy-beans, groundnuts, fruits and market garden produce), in respect of which Indonesia, unlike Malaya, was self-sufficient before the war. The pace of agricultural development in Indonesia has, however, been set by Western agricultural enterprise, 'estates' as they are called in South-East Asia. In the first half of 1951, when the raw material boom was at its peak the relative shares of the estates and smallholders in the total value of tropical produce exported were 27 per cent

and 71 per cent respectively, thus showing a shift in favour of smallholders' production for export.

In Indonesia (to a smaller extent, in Malaya also) utilization of land by Western plantations has been so controlled by legislative measures as to protect peasant-farming by the indigenous population. No land may be owned by non-Indonesians for purposes of cultivation. The land used by European plantations has consisted largely of so-called waste lands not claimed by the settled population and owned by the State, which the State has granted as "concessions" for a period of 75 years at low rents. Foreign plantations have also rented land from the farming population for the cultivation of sugarcane and tobacco on the condition that at least a minimum rent fixed by the State was paid by the planters. Thus the Dutch in Indonesia realized fairly early the danger of reducing the economically backward and comparatively unenterprising children of the soil to the position of a proletariat.

The Dutch in Indonesia, as the British in Malaya, offered 'an open door' to foreign merchants, traders and planters, irrespective of their political affiliation or racial origin. Before the war, out of the total private investment estimated at 4 billion guilders, about 2½ billion was Dutch capital and the rest came from British, American, and Chinese sources. This large volume of foreign capital found a free outlet into Indonesia's mining and large-scale industry and plantation enterprises. Unskilled labour was not imported into Indonesia for being employed in large-scale Western mining and industrial enterprises ; it has been almost exclusively Indonesian. Skilled labour has also been largely indigenous. Except in the villages and in general retail trading, however, Indonesians have not readily adapted themselves to the commercial economy imported from abroad. Thus exporters and importers have been mostly Western business firms, as elsewhere in South-East Asia, and wholesale trade has been mostly in the hands of Chinese merchants.

India's economic relations with Indonesia go back to the dim historical past of Indian cultural and political expansion in South-East Asia. Strange as it may appear, India was the

precursor of empire-building on the strength of superior land bases, which Western powers attempted in this region in the nineteenth century. The establishment of the empire of *Sri Vijaya* (which grew out of an Indian settlement near Palembang) in the fifth and sixth centuries, the extension of its hegemony under the *Shailendra* Kings from the eighth century onwards and the rise of the Indianized empire of *Majaphit* in the fourteenth century are basically similar to the process by which Western powers established their hegemony over South-East Asia in the nineteenth century. The fabulous wealth of South-East Asia lured Indian traders to this region. They also needed an alternative route to China. At the time when sailing ships were keelless and dangers of piratical attacks on rich cargoes were great, Indian traders avoided the all-sea route to countries of South-East Asia. Perhaps, they carried on trade by the overland route across the Isthmus of Kra, which probably explains the rise of old Indian settlements in Burma, Cambodia and Champa.

The trend and pattern of India's trade with Indonesia from the first decade of the present century up to 1939-40, the first year of World War II are illustrated below in the form of a series of statistical tables :

INDIA'S IMPORTS AND EXPORTS BEFORE WORLD WAR I

IMPORTS FROM JAVA AND SUMATRA

(Thousands of Rs.)

	1909-10	1913-14
FROM JAVA		
Sugar	7,77,39	10,64,45
Others	17,13	10,15
FROM SUMATRA		
Mineral oils	15,46	1,83
Others	8	8
Total	8,10,06	10,76,51

Exports to Java and Sumatra

Exports to Java		
Jute, gunny bags	26.20	69,71
Opium	20,70	70,53
Rice (not in husk)	87,36	39,17
Others	12,56	13,09
Exports to Sumatra		
Coal, coke and patent fuel	7,11	8,88
Rice (not in husk)	16,18	5,42
Others	1,01	5,33
Total	1,71,12	2,12,13

India's Imports and Exports Post-world War I

Imports from Java and Sumatra

(Thousands of Rs.)

	Pre-war Average	1925-26	1926-27
Imports from Java			
Liquors	2,59	8,49	10,87
Sugar	9,23,33	13,79,47	14,08,49
Others	9,11	15,83	22,92
Imports from Sumatra			
Mineral oils	11,78	11,48	4,76
Others	5	73	69
Total	9,46,86	14,16,00	14,47,73

Exports to Java and Sumatra

Exports to Java			
Gunny bags	45,29	2,31,63	1,71,55
Opium	52,28	56,00	60,00
Rice (not in husk)	1,76,58	1,61,47	34,92
Others	15,59	27,05	28,27
Exports to Sumatra			
Coal and coke	9,13	8	72
Rice (not in husk)	10,67	1,24,19	1,28,58
Others	4,75	11,06	15,43
Total	3,14,29	6,11,48	4,39,47

India's Imports and Exports in the Depression

Imports from Java and Sumatra

(Thousands of Rs.)

	Pre-war average	1934-35
Imports from Java		
Coffee	1	—
Farinaceous foods	50	2,82
Liquors	2,59	5,50
Sugar	9,23,33	1,63,96
Tea	81	—
Others	7,79	18,40
Imports from Sumatra		
Mineral oils	11,78	43,23
Others	5	2,03
Total	9,46,86	2,35,94

Exports to Java and Sumatra

	Pre-war average	1934-35
Exports to Java		
Gunny bags	45,29	26,01
Opium	52,28	—
Rice (not in husk)	1,76,58	15,34
Others	15,59	18,40
Exports to Sumatra		
Coal and Coke	9,13	—
Rice (not in husk)	10,67	39,54
Others	4,75	3,68
Total	3,14,29	1,02,97

India's Imports and Exports in 1938-39 and 1939-40

Imports from Java and Sumatra

(Thousands of Rs.)

	Pre-war average	1938-39	1939-40
Imports from Java			
Farinaceous foods	50	2,02	2,97
Liquors	2,59	2,77	3,23
Sugar	9,23,33	29,10	2,97,45
Tea	81	—	—
Others	7,80	17,19	33,58
Imports from Sumatra			
Mineral oils	11,78	12,97	49,70
Others	5	2,95	8,59
Total	9,46,86	67,00	3,95,52

Exports to Java and Sumatra

	Pre-war average	1938-39	1939-40
Exports to Java			
Gunny bags	45,29	59,52	1,17,53
Opium	52,28	—	—
Rice	1,76,58	—	—
Others	15,59	13,34	24,03
Exports to Sumatra			
Coal and coke	9,13	1,03	1,00
Rice (not in husk)	10,67	—	—
Others	4,75	5,10	11,23
Total	3,14,29	78,99	1,53,81

One notices a substantial excess, (except in the year 1938-39) of the total value of imports from Java and Sumatra over the total value of exports to Java and Sumatra. The amount of import surplus fluctuated as follows during the years which have been chosen as landmarks :

	Pre-war	1925-26	1926-27	1934-35	1938-39	1939-40
India's import *surplus* (—) *or export surplus* (+) (in thousands of Rs.)	—632,57	—804,52	—100,826	—13,297	+11,99	—241,71

As a colonial economy normally having a large export surplus which paid for 'invisibles' (such as interest and amortization on loans, payment for shipping, banking and insurance services, current earnings of enterprise transferred abroad, etc.), Indonesia naturally had a sizable export surplus with India. But it should be noticed that India's import surplus which reached its maximum during the post-war boom of the 'twenties dwindled considerably during the depression.

These trends have to be understood in the context of the composition of trade. India's imports from Java and Sumatra mainly consisted of sugar and mineral oils. The total value of imports of Java sugar before World War I was of the order of Rs. 9 crores, India being one of the principal natural markets for Java's cane sugar industry. The spectacular drop in sugar imports (from this figure of Rs. 9 crores to a little over Rs. 29

lakhs in 1938-39) was the consequence of the development of the Indian sugar industry under the stimulus of high tariff protection. As the result of the rapid development of this industry after 1931-32, the total production of sugar in India exceeded estimated consumption for the first time in 1936-37, and there was a carry-over of 200,000 tons to the subsequent season. This situation is reflected in the drastic decline of imports of Java sugar between 1926-27, the peak year of sugar imports from Java, and 1938-39. Imports of mineral oils from Sumatra remained more or less an unprogressive line of imports. The same was the case with liquor. And in any case, the total values involved were small. Tea imports from Java valued at Rs. 81 lakhs before World War I ceased altogether in the inter-war period presumably because India became an important competitor of Java in the world's tea market. On the whole, the drastic decline in India's imports of sugar from Java was mainly responsible for the dwindling of the total value of India's imports from Java. As regards other tropical products which normally form the staple exports of Indonesia, they were competitive with similar products supplied by India's close neighbour, Ceylon, and, in any case, India's import requirements were met largely through *entrepot* trade centred in Singapore.

India's export trade with Java and Sumatra declined during the period under survey owing to a different combination of circumstances. India's exports of opium disappeared from the list of exports. India's exports of rice (accounted for by Burma's exports) dwindled to nothing after the separation of Burma. Exports of gunny bags reflect the wide fluctuations of economic activity in a tropical economy over the periods of the trade cycle. India's exports of coal and coke were also on the downgrade during the period under survey.

The end of World War II marked the beginning of a period of serious economic crisis and instability for Indonesia. The apparatus of production which had been seriously damaged during the war had to be repaired or rebuilt and geared into proper action. In 1946 the Dutch government agreed to supply Indonesia with credits and help her to market her goods in Europe

in return for the supply of basic materials from Indonesia. Holland thus agreed to supply Indonesia with meat, textiles, and machinery, while Indonesia was to increase supplies of copra, palm oil, tea, coffee, palm kernels and groundnuts. In addition, new credits were promised while current credits were continued. The main objects of these credits were to provide a basis of trade and current payments, to enable the Indonesian economy to rehabilitate itself, to enable Indonesia to resume and increase supplies of basic raw materials and fats, and lastly, to provide for the transfer of payments on account of the large 'invisible' items in Indonesia's balance of payments.

It is thus obvious that the flow of foreign aid from the Netherlands government and the U.S. government was leading to a kind of reorientation of Indonesia's foreign trade which was inevitable in the circumstances. Goods received under E.R.P. covered a wide range including wheat flour, rice, canned milk, raw cotton, gum, rosin, caustic soda, gunny bags, cotton yarn, cotton fabrics, textile products, wearing apparel, iron and steel, aluminium products, and industrial machinery of various kinds. At the same time, Indonesia's strategic materials, and other non-strategic industrial raw materials as well as fats were being exported to either Europe or the Western Hemisphere including Japan. After Independence, the Indonesian government sought to get rid of inflation by a frontal attack. The bank notes were cut in two, one half remained legal tender for a time for half of the original face value to be exchanged later for new currency, and the other half was treated as a forced loan to the Government. Half of the bank deposits was written off and the other half was treated as a forced loan. The rate of foreign exchange was not revalued. But those who wanted to buy foreign exchange were required not only to pay at the official rate but also to buy 'exchange certificates' at a price equal to twice the official rate. In other words, they had to pay local currency at three times the official rate. On the other hand, exporters who sold foreign exchange to the State got, in addition to the official rate, an 'exchange certificate', the selling value of which was equal to the proceeds at the official rate. This system of discriminatory exchange rates was designed to subsidize exports, to tax imports and to yield, in addition, a considerable revenue for the State. The freezing of balances and uncertainty concerning the future

valuation of exchange certificates operated as a drag on imports, but exports were artificially stimulated.

It is impossible to maintain that these drastic monetary measures actually resulted in a normal functioning of Indonesia's foreign trade and a better adjustment of exports to imports in 1950. As a matter of fact the situation was transformed by the Korean War and the stockpiling boom. The improvement in the position of exports in consequence of the soaring prices of tin and rubber was so unexpected that imports lagged far behind and on December 27, 1950, the net foreign exchange holdings of the Central Bank were Rs. 4,110 million, while the gold reserves increased by Rs. 116 million. After March, 1950, Indonesia began to seek an increase of imports. But the monetary purge had reduced importers' cash holdings and forced them to reduce their purchases. It was also not easy for them to enter into commitments at prices which were thrice as high as those which they were paying before. After the Korean War, it was also more difficult to procure goods which Indonesia required to import. The system of 'free lists' (no quantitative restriction on imports) introduced in March, 1950, which included only medicines and weaving yarns, was gradually expanded to include provisions and drinks, chemical products, technical articles, motor-car accessories, manures, packing materials, *batik* raw materials and metals. But the system of exchange certificates which operated as a drag on much-needed imports and as a subsidy on exports, where no subsidy was now needed (at any rate not needed to the same extent as before the Korean War), was clearly a hindrance to the expansion of imports.

In 1950 Indonesia was freed politically as well as economically from the constraint of entering into trade agreements only with the countries of Europe. And towards the end of 1950, when a programme of liberalization of imports was adopted, Indonesia had to look farther afield for trade agreements which would ensure adequate supplies of essential goods at reasonable prices. In pursuance of this policy, Indonesia has already developed trade relations with Japan and the Western Hemisphere *via* Hongkong, thereby reducing her dependence on Singapore's *entrepot* trade.

The India-Indonesia Trade Agreement was signed on January 20, 1951 at Djakarta. It came into effect from 1st November, 1950 and was valid till the 30th June, 1951 and for such succes-

sive periods as was mutually agreed upon before the expiry of the period. The two countries contemplated a three-fold increase in the total volume of trade. As a bilateral agreement it aimed at balanced trade between the two countries at a level of Rs. 4.62 crores per annum on either side. The value of total trade expected was thus Rs. 9.24 crores, as compared with the actual value of Rs. 3.1 crores of total trade in 1949-50 (the imports into India were valued at Rs. 2.8 crores and exports from India at Rs. 1.3 crores).

The exports from India to Indonesia specified in Schedule A of the Agreement were as follows :

	Rupees (Lakhs)
Cotton piecegoods	125.0
Cotton yarns from 30 to 60 counts	25.0
Rayon piecegoods	—
Knitted goods including only singlets and shirts ...	12.5
Household textiles including handloom towels, tablecloth, napkins, etc.	1.3
Sewing and other threads	1.3
Metal and metal products including agricultural machinery	12.5
Household ware including hurricane and other lanterns, household utensils, glassware, enamel and aluminium ware	2.5
Earthenware including pottery	2.5
Belting	3.1
Plywood	—
Cement	12.5
Tea chests	3.1
Linseed oil	6.3
Lac including shellac	25.0
Pharmaceutical products	1.3
Locks and door fittings	3.8
Electrical goods including wire cable, ceiling fans, bakelite fittings and electrical motors	3.1
Chemicals including sodium bichromate, sodium sulphate, magnesium sulphate, calcium chloride, magnesium chloride, and sodium and potassium bromide	3.8
Tobacco	—
Coal	12.5
Jute goods quota for the period January-June, 1951 ...	160.0
Miscellaneous including sports goods	45.6
Total ...	462.5

The imports from Indonesia to India were specified in Schedule B of the Agreement as follows :

	Rupees (Lakhs)
Palm oil (8000 tons)	112.5
Copra (5000 tons)	50.0
Coconut oil (2000 tons)	33.8
Maize (5000 tons)	12.5
Teak and maranti	12.5
Spices and betelnuts	62.5
Tin (500 to 600 tons)	56.3
Tobacco wrappers	6.3
Raw hides and skins	12.5
Wattle bark and cutch	6.3
Canes and rattan	6.3
Gums and resins	6.3
Essential oils including citronella oil	6.3
Tapioca (10,000 tons)	31.3
Miscellaneous including palm kernels	47.5
Total ...	462.5

The contracting parties agreed that with respect to the commodities specified in the Schedules, import and export licences, where necessary, shall be granted up to the value or quantity mentioned against each item according to each country's laws and regulations. The granting of licences will, however, be subject to specifications, prices, delivery, and other terms being satisfactory to the buyers and sellers. During the period of the agreement the parties could, by mutual agreement, alter items or add new items. The agreement did not prejudicially affect the rights of nationals of either country to enter into contracts in respect of trade in items not mentioned in the agreement. The agreement provided for mutual consultation to facilitate the fulfilment of the agreement. The ships in the national register of either country were also accorded in the ports of the other country bunkering facilities and could claim other services and equal treatment in respect of duties, charges, and taxes which were customary.

It will be noticed that India's first trade agreement with Indonesia provided for a much wider basis of trade between the two countries than had been traditional. Schedules A and B reproduced above include a wider range and a more diversified pattern of both exports and imports than what has hitherto been characteristic of India's trade with Burma, Ceylon or Malaya.

A few comments may be made on the export and import items specified in the Schedules. Indonesia was importing Indian textiles so far *via* Singapore. The trade agreement provided for direct export of Indian textiles to Indonesia up to the total value of 10 million guilders. This was a very small fraction of Indonesia's total import requirement, but its significance lies in India's obtaining direct access to Indonesia's market in textiles. There is a very large demand for cotton yarn (20, 30, and 40 counts) for feeding the handlooms and small power-loom factories which are being fostered by the State in Indonesia as well as in Thailand, Burma, and Ceylon. The provision for export of 2 million guilders worth of cotton yarn (compared with an import demand of 40 million guilders) is a concession to the persistent demand for cotton yarn in South-East Asia. While the Indian handloom industry has to reconcile itself to the loss of the market for *lungyis* in South-East Asia, there is a demand for certain varieties of handloom textiles like tablecloth, towels, and napkins for which there is provision in the India-Indonesia trade agreement. Woven and knitted goods of limited varieties have a wide market in Indonesia as well as in other countries of South-East Asia. There is also a good and expanding market for buckets (G.I.R.), agricultural implements, and particularly sugar machinery for Indonesia's partially rehabilitated sugar industry. Schedule A also contains a wide range of products of certain consumers' goods industries which have already developed export markets in Asia, such as household ware, electrical goods, locks and door fittings, sports goods, sewing thread, etc. Since many of these Indian goods are unknown in South-East Asia, the trade agreement with Indonesia has served the useful purpose of introducing them to the Indonesian market.

Let us next turn to the Schedule of India's imports from Indonesia. Food products, like tapioca and maize, were calculated to cover a part, however small it might be, of India's food deficit. The allocation of copra and coconut oil has an interesting significance. India had been so far dependent on Ceylon and Malaya (enjoying Commonwealth preference) for her supplies of these two basic raw materials. Both Ceylon and Malaya under the pull of world demand were charging, until recently, almost prohibitive prices. It was, therefore, clearly to India's advantage to try to buy copra and coconut oil from other important competi-

tive sources of supply, viz., Indonesia and the Philippines. But obviously Commonwealth tariff preference has stood in the way of the operation of price competition. Indonesia's allocation of copra and coconut oil was in effect designed to ensure adequacy of supplies rather than a price advantage. What is true of copra and coconut oil is also true of palm oil of which Malaya has a large exportable surplus, but the bulk of which was purchased by the U.K. Ministry of Food in 1951. Palm kernels of Indonesia can be crushed in India into palm oil which can be a substitute for coconut oil and can also meet the keen demand for palm oil on the part of the manufacturers of soap and margarine. In respect of teak and maranti it is doubtful whether the provision in the agreement for supplies from Indonesia had much real significance in view of the fact that under the scheme of Commonwealth preference while Burma teak and maranti were admitted free of duty, there was 30 per cent duty on teak and maranti imported from other competing sources of supply like Indonesia and Thailand. In regard to the rest of the commodities, like betelnuts, spices, gums and rosins, essential oils like citronella and wattle bark and cutch, it was also doubtful whether suppliers from Indonesia could easily be competitive with suppliers from other countries within the British Commonwealth and the Empire, although it is certainly mutually advantageous for both India and Indonesia to seek a competitive market in respect of their exports and imports.

It would be interesting to enquire whether the working of the India-Indonesia trade agreement has so far resulted in the three-fold expansion of the total trade between the two countries which was the target set by the contracting parties.

(Crores of Rs.)

	1949-50	1950-51	1951-52[1]
Imports from Indonesia	2.9	3.07	3.07
Exports to Indonesia	1.3	2.89	4.51
Total trade	4.2	5.96	7.58

Although the target of three-fold increase of total trade has not been reached, yet even an almost two-fold increase in 1951-52

[1] According to *Direction of International Trade* (Statistical Papers, Series I, Vol. III, No. 2) the value of India's trade with Indonesia was $4.6 million dollars in 1950 (January to December) and $9.0 million in 1951 (January to December) which also indicates almost a doubling of the value of total trade.

as compared with 1949-50 cannot be regarded as a mean achievement, considering the various difficulties involved in the building up of international trade on a new foundation of direct trade relations and new categories of goods.

PART III

INDIA'S TRADE WITH JAPAN, CHINA AND THE PHILIPPINES

CHAPTER 7

JAPAN

INDIA'S trade relations with Japan have passed through various phases which reflect the structural changes in the economies of the two countries during the first half of the present century. Trade between them has shown remarkable adaptability to these fundamental, long-term changes, and has been important in magnitude and varied in character. This characteristic of the trade between the two countries is mainly explained by the time-lag between industrial development in Japan and that in India, which has accentuated the complementary character of the two economies and has been directly reflected in the growth of mutually advantageous international trade.

The turn of the present century coincided with the phase of industrial revolution in Japan which was accompanied by an inflow of foreign capital in substantial amounts. India's trade with Japan began to assume a varied and substantial character during this phase. The author of the *Review of the Trade of India* (Mr. O'Conor) had commented in 1888-89 : "imports from Japan are quite trifling, averaging less than three lakhs of rupees annually in the last five years, and there are no indications of an increase unless the imports of copper should be resumed." The following statistics for the year 1900-01 would be found interesting :

INDIA'S IMPORTS FROM JAPAN (RS.)

1900-01

Apparel	2,13,168
Cabinetware and furniture	13,452
Chemicals	1,995
Chinese and Japanese ware	55,762
Clocks and watches	470
Coal	4,81,139

INDIA'S IMPORTS FROM JAPAN (RS.)—*Contd.*

Raw cotton	3,84,291
Twist and yarn	63,385
Cotton manufactures	16,570
Drugs, medicines and narcotics	4,23,997
Dyeing and tanning material	27
Earthenware and porcelain	38,084
Glass and glassware	1,64,455
Hardware and cutlery	84,353
Instruments, apparatus and appliances	457
Machinery and millwork	4,223
Matches	10,21,037
Mats and matting	3,311
Metals	31,623
Provisions	43,434
Raw silk	33,712
Silk goods	50,00,626
Spices	1,24,116
Stationery	8,936
Sugar	90
Tea	30
Tea chests	983
Toys and sports goods	5,386
Umbrellas	1,01,713
Grand Total ...	83,20,825

It is evident that imports from Japan into India had a diversified character as early as 1900-01. Japan apparently was beginning to export to India manufactured products, such as apparel and cotton manufactures, glass and glassware, hardware, machinery and millwork, matches and silk goods, which eventually became Japan's traditionally important exports to India. Some of the industrial raw materials, like raw cotton and coal, disappeared subsequently from the list of Japan's exports to India and appeared as Japan's imports from India as eventually Japan's industrial development gathered momentum. The only important exception was the category of metals which still retains its importance in India's import trade with Japan.

During the decade preceding World War I, there was a steady increase in India's trade with Japan as the result of the increasing tempo of the industrial revolution experienced by the latter. The case of the Japanese cotton hosiery industry is a remarkable example of how new Japanese industries were developing export markets. The expansion of the Japanese cotton hosiery industry during the period of the Russo-Japanese war was so great that supply outstripped demand, and Japan was evidently extending

her market in India as the result of lower labour cost of production of yarn and lower freight rates charged by subsidised Japanese shipping companies. It should be noted that towards the end of the period 1904-14 Japan's industrial revolution was reaching a state of suspended animation. Her foreign trade balance had been persistently adverse, and the adverse balance of payments was putting a heavy strain on her economy. Naturally, Japan was struggling hard to develop export markets abroad. India was an important potential market. Thus the story of the expansion of Japan's cotton hosiery trade with India (at the expense of Germany which had earlier taken advantage of India's 'price market' by supplying India with cheap consumer goods) was repeated in the case of many other lines of India's imports. Japanese exporters were feeling their way in the Indian market in such lines as piecegoods, silks, glass and glassware, copper, matches, umbrella fittings, toys, etc., the imports of which in 1900-01 were not significant. Japan had studied the Indian market more carefully than most of the supplying countries, specially in regard to cheap and attractive articles which caught the consumer's eye. Goods were sometimes inferior in quality, but were extremely cheap. Japan had built up dependable commercial agencies and possessed the great advantage of a direct line of subsidised steamers which charged low freights to India.

Before World War I, for years Germany had also made a bold bid for the Indian market by following a somewhat similar technique of export promotion. In the case of German goods cheapness was the most important factor. German manufacturers took fully into account the tastes of the actual consumers in regard to cheap, bright, coloured piecegoods, and the convenience of the importer as regards credit, the method of quoting prices and trade discounts. The German exporter granted peculiarly easy terms of credit, offered c.i.f. quotations and differential discounts so familiar in the eastern market. Japan was obviously following in the footsteps of Germany and other competitors.

Before the first World War Japan's position in India's export trade was assuming increasing importance. Not only was the total value of India's exports to Japan very much higher than the total value of India's imports from Japan, but India's favourable balance of trade with Japan was also becoming larger.

	Value of India's exports to Japan (Yen)	Value of India's Imports from Japan (Yen)	Balance of Trade (Yen)
1900-1904 ..	50,701,059	8,184,185	+ 42,516,874
1905-1909 ..	67,924,136	11,899,006	+ 56,025,130
1910-1914 ..	134,859,423	23,719,813	+111,139,619

By far the most important commodity exported from India to Japan was raw cotton which formed 87 per cent of the total value of India's exports to Japan in 1900-01. In subsequent years Japan was consuming a progressively higher proportion of India's exportable surplus of raw cotton. In 1913-14 her offtake was as much as 45 per cent of India's total exportable surplus. Rice, not in the husk, was another important commodity exported from India to Japan. In 1913-14 raw cotton and rice not in the husk, accounted for as much as about 92 per cent of the total value of India's exports to Japan. By 1913 Japan, which had become one of the largest consumers of pig iron, was also consuming a high proportion of India's exportable surplus of pig iron.

The four years of World War I—1914-1918—were years of favourable trade balances for Japan which reached an aggregate of unprecedented dimensions. Japan's industrial revolution, which had reached a state of stagnation before the war under the stress of an unfavourable balance of payments, was intensified and reinforced by the increase of Japan's export trade which filled the void left by the disappearance of Germany and Austria as trading countries in Asia and by the shrinkage in the exports of allied nations to Asia during the period of World War I. The increasing pace of Japan's industrial development was naturally reflected in her expanding trade with India. Indeed, the rate of increase in the total value of India's imports from Japan and the widening of the range of Japanese goods imported into India during this period were really phenomenal and have few parallels. The statistical position is indicated in the following comparative tables of statistics :

VALUE OF IMPORTS FROM JAPAN TO INDIA
£ (1000)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20
1. Ale, beer and port	1	7	29	76	145	247	341
2. Apparel	68	43	87	135	143	211	442

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20
3. Brass, bronze, etc.	1	2	42	156	317	597	357
4. Brushes and brooms	4	—	—	19	25	18	36
5. Buttons	—	—	77	127	80	63	150
6. Camphor	83	109	139	163	221	89	124
7. Cement	—	12	89	70	39	113	97
8. Chemicals	10	15	63	216	371	404	191
9. Coal, coke, etc.	84	—	—	1	—	15	2
10. Copper	274	254	108	46	351	264	309
11. Cotton manufactures	803	736	958	3,042	3,449	11,294	5,895
12. Cutlery	—	—	—	23	31	29	88
13. Drugs and medicines	25	27	34	37	45	81	101
14. Earthenware and porcelain	42	27	62	127	96	163	407
15. Glass and glassware	105	131	400	599	769	552	1,270
16. Haberdashery and millinery	101	—	—	173	107	124	217
17. Hardware	41	33	117	333	455	618	745
18. Instruments, appliances, etc.	7	4	18	82	309	324	124
19. Iron or steel	—	7	10	58	227	663	39
20. Leather	3	—	—	22	18	22	54
21. Machinery and millwork	10	10	52	89	134	164	85
22. Matches	260	461	705	604	1,346	1,042	1,873
23. Paints and painter's materials	—	1	16	21	82	329	80
24. Paper and pasteboard	11	17	28	198	392	465	271
25. Provisions and oilman's stores	13	8	14	24	37	32	51
26. Rubber manufactures	—	9	74	55	28	46	21
27. Raw silk	7	58	6	18	25	60	—
28. Silk manufactures	966	626	991	957	1,063	1,360	3,300
29. Soap	3	4	20	15	18	11	15
30. Ginger	24	17	28	21	29	5	7
31. Starch and farina	—	—	—	16	99	25	86
32. Stationery	20	15	45	112	102	92	134
33. Sugar	2	14	248	274	109	19	86
34. Tea chests	7	21	45	67	228	303	108
35. Toilet goods	11	12	22	31	44	68	99
36. Toys and requisites for games	34	20	77	112	80	105	247
37. Umbrella fittings	45	26	22	53	50	49	67
38. Timber	3	—	—	171	126	72	102
39. Wood manufactures	7	8	18	23	62	117	145
40. Woollen manufactures	1	1	33	165	91	222	83
41. Others	103	84	195	342	809	1,841	1,276
Total	3,187	2,966	4,998	8,889	12,175	22,349	19,153

It will be noticed that after the outbreak of the war there was an appreciable increase in the imports from Japan of a number of commodities, the supplies of which were cut off by the war. With the stoppage of imports of matches from Austria-Hungary and the curtailment of imports from Scandinavia, the imports of matches from Japan increased. Japanese matches were much cheaper than Swedish matches and Japan was able to capture the major part of the Indian trade in matches. Noticeable increases were also recorded in Pilsener beer, raw silk, wrought copper, camphor, glass bangles, bottles, funnels and globes, tea chests, sugar, cement, paper and pasteboard, and chemicals. The rapidity with which Japan took advantage of a potential market for these commodities is a tribute to the resourcefulness of supply which has since then characterised the Japanese export industries.

The statistical position relating to commodities in respect of which imports from Japan increased to the maximum extent, and the Japanese export industries showed remarkable resourcefulness of supply, is shown in the following table :

VALUE OF IMPORTS

£ (1000)

	1910-11	1915-'
Apparel	62	87
Cement	—	89
Chemicals	4	55
Camphor	64	139
Glass and glassware	85	400
Hardware	21	117
Liquor	—	29
Matches	136	705
Sugar	—	248
Cotton piecegoods, grey	—	405
Silk manufactures	795	991
Total (including others)	2,248	4,998

India's export trade with Japan, limited as it was to a narrow range, also expanded in wartime, although the rate of increase lagged very much behind the high rate of increase of imports.

TOTAL VALUE OF EXPORTS FROM INDIA TO JAPAN

£ (1000)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20
1. Raw cotton	12,934	9,538	11,353	17,322	20,512	15,583	41,223
2. Hides and skins, tanned or dressed	88	108	77	115	22	72	257
3. Jute manufactures	99	197	177	228	584	691	1,218
4. Manures	63	34	16	32	27	27	344
5. Rice (not in husk)	1,077	51	20	2	227	1,270	1
6. Pulses	52	36	6	46	113	1	11
7. Iron or steel	222	107	140	252	153	70	421
8. Oilcake	201	69	36	64	25	2	185
9. Opium	120	101	121	159	196	430	406
10. Raw paraffin	58	87	96	158	171	59	375
11. Raw jute	110	56	72	79	110	113	345
12. Others	91	52	157	299	593	1,109	1,486
Total	15,115	10,436	12,271	18,756	22,733	19,427	46,272

The Japanese cotton textile industry was dependent on India for its raw material and on China, as its principal market, for the finished products. It will be noticed that raw cotton and pig iron were two basic raw materials which accounted for the major part of India's exports to Japan before and during the war. Exports of raw cotton to Japan were less than what they were in 1913-14. Pig-iron exports showed ups and downs at two-yearly intervals. The trend was obviously dominated by the exigencies of the supply of, and the demand for, pig iron in India as determined by the development of the Indian iron and steel industry in wartime. It was otherwise in the case of short staple raw cotton of which there was a large exportable surplus in view of the limited domestic demand.

It is necessary at this point of our analysis to assess the position of Japan in India's foreign trade in the light of the fundamental

changes in the direction of trade which occurred during the first World War. The following table sets out the position which emerged in 1918-19 :

PERCENTAGE SHARE IN INDIA'S TRADE

Countries	Imports 1913-14	Imports 1918-19	Exports 1913-14	Exports 1918-19	Total Trade 1913-14	Total Trade 1918-19
United Kingdom	64.1	45.5	23.7	28.5	40.7	35.3
Other countries of the British Empire ...	5.9	12.5	10.3	23.5	11.3	18.7
Total British Empire ...	70.0	58.0	34.0	52.0	52.0	54.0
United States ...	2.6	9.5	8.9	13.1	6.2	11.7
Japan ...	2.6	19.8	9.2	11.6	6.4	14.9
Java ...	5.8	6.7	.8	1.4	2.9	3.5
France ...	1.5	1.1	7.1	3.5	4.8	2.5
China ...	.9	1.5	2.3	1.2	1.7	1.3
Belgium ...	2.3	—	4.9	—	3.8	—
Turkey ...	.3	.3	1.2	2.9	.8	1.9
Italy ...	1.2	.5	3.2	3.8	2.3	2.5
Others ...	12.8	2.6	24.4	10.5	19.1	7.7
Total of countries outside the British Empire ...	30.0	42.0	62.0	48.0	48.0	46.0

If we take India's imports during the first World War, the share of the British empire decreased by 12 per cent which was offset by a corresponding increase in the share of countries outside the British empire. Within this group of countries there were the 'enemy' countries of which Germany and Austria-Hungary were important sources of supply of India's imports. The overall increase of 12 per cent in the share of this group is explained by (*a*) an increase in the U.S.A's share of India's imports and (*b*) an increase in Japan's share, both of which relieved to a large extent the wartime shortages of essential consumer goods in India.

The revival of international competition after the end of the war reacted unfavourably upon Japan's exports to India in 1919-20. Statistics show a comparative collapse of India's import trade with Japan. Japan was unable to withstand the British competition in the piecegoods trade. The total value of cotton manufactures imported from Japan declined and only 76 million yards of cotton piecegoods were imported from Japan in 1919-20 as against 238 million yards in 1918-19. There were also decreases in imports of iron and steel, zinc, electrical instruments, paper and pasteboard, paints and colours, tea chests, cement, camphor, machinery and millwork, and instruments and appliances —commodities in which continental competition was well under way. Japan's position seemed to be still secure in glass and glassware, matches, and silk manufactures, although it was expected that European competition would revive also in these lines of import.

While imports from Japan began to decline, India's exports to Japan, as will be seen from the statistics given above, reached the peak level in 1919-20. Japan purchased raw cotton valued at Rs. 41 crores in this year and also increased her purchases of indigo, bones, rape and sesamum cake, paraffin and rapeseed.

In 1919-20 Japan developed a large import surplus with India and, for the matter of that, on her merchandise trade as a whole. But the post-war boom conditions in Japan were sustained (in spite of the financial reaction in 1920) through the financing of the large import surplus as well as heavy imports of gold and silver by foreign balances accumulated earlier during the period of the war. Thus, heavy inflationary pressures developed in the Japanese economy during the immediate post-war period. So far as Japan's trade with India was concerned, the total values of both imports and exports were at higher levels than in the war period ; but the increase in the total value of Japan's imports from India was much greater than the increase in the total value of Japan's exports to India, so that there was an adverse shift in Japan's balance of trade with India.

		Exports from Japan to India (Yen)	Imports from Japan into India (Yen)	Balance of Trade (Yen)
1915-19	...	106,917,017	227,730,790	—120,813,779
1920-24	...	121,789,763	310,578,962	—178,789,199
1925-29	...	168,201,654	361,775,979	—193,574,325

The 'twenties were marked by two important events, the depreciation of the yen and the restoration of gold in 1929. During the whole of this period, the continued trend towards an import surplus resulted in serious losses in Japan's specie holdings. The development of Japanese trade with India was thus inhibited to some extent by the instability of the Japanese economy in spite of the post-war boom. But two other restrictive influences, so far as the expansion of Japanese export trade with India was concerned, were the increasing severity of international competition and the development of certain industries in India under the stimulus of tariff protection. We may, therefore, turn to an analysis of the Indo-Japanese trade in the 'twenties for a confirmation of these broad underlying trends.

TOTAL VALUE OF INDIA'S IMPORTS FROM JAPAN (Rs. 1000)

(Rs. 1000)

	1920-21	1927-28
1. Ale, beer and porter ...	7,40	3,38
2. Apparel ...	30,87	14,35
3. Bobbins ...	9,70	1,53
4. Brass, bronze, etc. ...	45,30	30,56
5. Brushes and brooms ...	2,13	1,30
6. Buttons ...	14,71	8,97
7. Camphor ...	19,39	17,17
8. Carriages ...	3,87	3,85
9. Cement ...	44	4,21
10. Chemicals ...	13,53	3,30
11. Coal, coke, etc. ...	3,59	1,66
12. Copper ...	7,45	5
13. Raw cotton ...	5,63	4,12
14. Cotton manufactures ...	14,92,80	11,80,89
15. Cutlery ...	4,72	8
16. Drugs and medicines ...	9,18	5,33
17. Furniture and cabinetware ...	3,58	2,26
18. Glass and glassware ...	1,14,08	68,76
19. Haberdashery and millinery ...	28,82	21,97
20. Hardware ...	75,81	27,40
21. Instruments ...	18,06	5,32
22. Iron and steel and metals ...	4,99	2,50
23. Leather ...	4,23	43
24. Machinery ...	12,11	2,39
25. Matches ...	1,29,58	3,47
26. Paints and painter's materials	2,34	3,40
27. Paper and pasteboard ...	41,54	7,37
28. Provisions ...	3,87	4,64
29. Rubber goods ...	2,26	86
30. Raw silk ...	6,17	3,24
31. Silk goods ...	2,95,95	1,57,61

		1920-21	1927-28
32. Soap	...	1,30	—
33. Spices	...	20	45
34. Stationery	...	14,24	5,88
35. Sugar	...	66	—
36. Tea chests	...	5,25	27
37. Toilet goods	...	7,55	4,02
38. Umbrella fittings	...	7,43	16,27
39. Toys and requisites for games		17,99	13,55
40. Timber	...	2,22	11,42
41. Wood manufactures	...	19,89	3,75
42. Woollen manufactures	...	23,20	12,01
43. Others	...	79,87	97,39
Total	...	26,43,01	17,90,19

The period of the first World War had witnessed a change in the industrial policy of the Government of India from *laissez-faire* to that of fostering limited industrial development by means of State assistance. In fact, the lesson of the wartime shortages of basic consumer goods was not lost on the Government, and the policy of the Munitions Board in respect of direct purchase of articles and materials in India, diversion of all orders from the U.K. and elsewhere to Indian manufacturers and assistance to individuals and firms who wished to import plant or employ skilled labour or experts from abroad, stimulated the development of a number of Indian industries like cotton, jute, iron and steel, and leather industries, engineering industries, and industries manufacturing chemicals, mineral acids, oils, paper, glass, cement, cutlery, fertilizers, paints and varnishes, surgical instruments, etc. In 1918 the Indian Industrial Commission pointed out the potentialities of India's industrial development and emphasized the positive role of the State in industrial development.

After the war, revival of intense foreign competition began to undermine the position of Indian industries in spite of the fact that the level of the revenue tariff which had gone up in wartime continued at a high level. Consequently, public opinion in India demanded protection for Indian industries more insistently than ever before. The Fiscal Autonomy Convention accepted after the political reforms of 1919 strengthened the hands of the protectionists in India. Under the pressure of public opinion, the Government of India appointed the Indian Fiscal Commission for seeking expert advice on the questions

of the appropriate tariff-making machinery and the regulative principles of protection. The Commission recommended the policy of discriminating protection, the implementation of which during the 'twenties and the 'thirties gave limited protection to certain important consumer goods industries like the sugar and cotton textile industries and the vital basic industry, viz., the iron and steel industry. Since substantive protection was granted to certain industries, the products of which competed with the same or similar Japanese products, tariff protection was bound to have a restrictive effect on India's import trade with Japan in certain lines. The raising of the general revenue tariff from 5 per cent to 7½ per cent in 1916-17, to 11 per cent in 1921-22 and to 15 per cent in 1922-23 gave adventitious protection to a number of Indian industries and made it difficult for Japan to withstand the severity of competition in the Indian market, especially when she had to compete with industrially maturer and technologically more progressive countries of the European continent. In certain cases the incidence of import duties was heavier. For example, a high specific duty of 12 annas per gross boxes was levied on matches in 1921-22. This duty was doubled in 1922-23. Luxury duties on commodities like silk goods were raised from 7½ per cent to 20 per cent in 1921-22 and 30 per cent in 1922-23. These high revenue duties had their heavy impact on precisely the staple commodities imported from Japan.

The following table shows the heavy fall in the total value of imports from Japan in 1927-28, compared with 1920-21, almost all along the line. It is difficult to ascertain how far the decline can be set down to (*a*) the collapse of the post-war boom of 1920-21, (*b*) the effects of both substantive and adventitious protection, as the case may be, (*c*) the growing severity of international competition and (*d*) internal economic dislocation in Japan, particularly due to the great earthquake of 1923. But let us examine the position as regards four important commodities, viz., (1) cotton manufactures, (2) glass and glassware, (3) silk manufactures and (4) matches.

Commodities	(1) Decrease in 1927-28 compared with 1920-21 Rs. (1000)	(2) Decrease in the total value of imports of all commodities in 1927-28 compared with 1920-21 Rs. (1000)	(3) Percentage of the total of (1) to (2)
1. Cotton manufactures	— 3,11,91		
2. Glass and glassware	— 71,32	— 8,52,82	76
3. Silk manufactures	— 1,38,34		
4. Matches	— 1,26,57		
	— 6,48,14	— 8,52,82	

In the case of cotton manufactures, the rise in the general rate of import duty afforded protection to the Indian cotton textile industry. The suspension of the excise duty of 3½ per cent on cotton manufactures in 1925 further strengthened the relative position of the indigenous industry. In 1930, when the Government of India granted substantive protection to the Indian cotton textile industry by raising the revenue duty, they took care to levy an additional protective duty of 5 per cent on goods of non-British origin, which really meant Japanese cotton manufactures. It seems probable, however, that the drastic fall in the imports of cotton manufactures from Japan in 1927-28, as compared with 1920-21, was mainly due to the collapse of the post-war boom and only to a small extent due to the replacement of Japanese imports by textiles produced in India or imported from the U.K.

The position as regards glass and glassware was somewhat different. Glass and glassware from Germany and Austria which Japanese imports had replaced in wartime were once more flowing into the Indian market.

In silk manufactures, Japan was replacing China as a source of supply. But Japanese imports were restricted by the shrinkage of purchasing power and by the increase of import duties in India. During the 'twenties, however, the raising of the revenue tariff on luxury goods, like silk piecegoods, from 7½ per cent to 20 per cent in 1921-22 and to 30 per cent in 1922-23 had discouraged imports from Japan and stimulated the development of the Indian silk industry. Protection was granted to Indian sericulture in the 'thirties.

The drastic reduction in the imports of Japanese matches is

entirely explained by the development of the Indian match industry under the shelter of protection. In March, 1922, the duty on imported matches was fixed at Rs. 1-8-0 per gross for revenue purposes, which was converted into a protective duty without any time limit in September, 1928. This high tariff on matches stimulated the development of the Indian match industry. The Swedish match combine, which had already captured about half of the Indian market by 1923-24, constructed its own factories in India and, entrenched behind the tariff wall, it was able eventually to oust Japanese matches from the Indian market.

By the end of the 'twenties, it appeared, on the whole, that unless there was a fundamental change in the conditions of Japanese competitive efficiency and in the composition of Japanese exports to India, Japanese exports to India would sooner or later reach a dead end. As we shall see, with the onset of the depression Japan was, in fact, well poised for another bold bid for the Indian market.

Let us survey briefly the position of India's exports to Japan in the 'twenties.

TOTAL VALUE OF EXPORTS TO JAPAN

Rs. (1000)

		1920-21	1927-28	Increase + or decrease —
1. Raw cotton	...	20,59,10	21,98,59	+ 1,39,49
2. Hides and skins, tanned or dressed	...	24,36	28,92	+ 4,56
3. Iron and Steel	...	55,48	1,38,53	+ 83,05
4. Raw jute	...	18,86	34,75	+ 15,89
5. Jute manufactures	...	71,83	97,95	+ 26,12
6. Lac	...	—	—	—
7. Manures	...	15,88	11,62	— 4,26
8. Oilcake	...	11,61	31,36	+ 19,75
9. Opium	...	39,64	—	— 39,64
10. Paraffin wax	...	28,82	12,10	— 16,72
11. Pulses	...	2,38	26,43	+ 24,05
12. Rice (not in husk)	...	15,15	2,25,62	+ 2,10,41
13. Others	...	78,86	94,79	+ 15,93
Total	...	24,15,97	29,00,66	+ 4,84,69

It will be noticed that the range of India's export goods was narrowed further through the disappearance of opium as an export item. Japan's dependence on India for raw cotton and on China as the principal market for finished cotton textiles increased during the post-war period. Japan was also a ready purchaser of Burma's rice surplus and Indian pulses. The production of pig iron in India was on the upgrade after 1924 till it reached the post-war peak in 1929, and during this period India developed an export market for her increasing supplies of pig iron. In 1929 Japan consumed as much as 59.6 per cent of India's exports of pig iron.

With the onset of the economic depression after 1929, various factors contributed to the quick economic recovery of Japan and her regaining initiative in a remarkable trade drive. Restoration of gold in 1929 had set in motion a deflationary impulse in the Japanese economy which was reinforced by the world economic depression. But the reimposition of the gold embargo in 1931 was the prelude to a reflationist policy. The 'Manchurian incident' which occurred at about the same time necessitated increased armament expenditure, and large State expenditure was incurred on relief works undertaken to tide over the depression. The resulting budget deficits were financed by new loans, the total amount of which increased by 3,012.5 million yen between 1932 and 1935. The greater part of the new bonds was taken over by the Bank of Japan and formed the basis of inflationary bank credit. Thus, cheap money conditions were preserved, but speculative excesses were rigidly curbed. According to Japanese commentators, the depreciation of the yen at this time pulled Japanese prices down to the levels in the U.K., the U.S.A. and other countries, thus correcting the misaligned price relationship which was so long adverse to Japan. On the whole, the depreciation of the yen, combined with the expansion of armament industries, promoted industrial production and considerable expansion of foreign trade. Equilibrium in Japan's balance of payments was thus more than regained : in fact, there was an enormous excess of receipts over payments, contrary to the adverse trend of the 'twenties.

During this period there was a remarkable improvement in Japan's manufacturing processes as the result of increasing use of modern machinery and improved technique. There is also evidence to show that Japanese labour efficiency was increasing during this period. The Japanese worker was industrious by nature, skilled in technique, and able and willing to work for long hours. Labour being abundant, relations between workers and employers were never strained. During this period, however, in addition to these favourable factors there were the important factors of rationalisation and modernisation of plant in many industries, some of which were new to Japan.

Remarkable improvements were effected in industrial management and organisation from the stage of small-scale production right up to the stage of large industry producing for export. Apart from the grant of subsidies and supply of expert guidance, there was State intervention in the field of organisation of production for export specially as regards the fixation of export prices and of the amount and quality of goods to be exported. Purchase of raw materials abroad was also a matter for which the State was deeply concerned, and Japan entered into bilateral trade agreements with many countries including India. The Japanese economy during the 'thirties was no doubt developing a dangerous totalitarian trend, but it showed remarkable adaptability and resourcefulness in the field of foreign trade.

The Indo-Japanese Trade Agreement of 1934 was designed to stabilize the trade between India and Japan in respect of imports of Japanese cotton piecegoods into India against exports of Indian raw cotton to Japan. The declining market for Indian cotton in Japan due to Japan's increasing concentration on the spinning of higher counts was a matter of serious concern to the Government of India. On the other hand, the exclusion of Japanese textiles by means of higher and higher discriminatory duties with the object of preserving the Indian market for the Indian and the British manufacturer was also a matter over which the Japanese Government was very much exercised. After 1932 the abnormal imports of cheap Japanese piecegoods were steadily undermining the position of both Indian and Lancashire cotton mills. But since under the Indo-Japanese Trade Convention of 1904 Japan enjoyed most-favoured-nation treatment no safeguarding duties could be levied on Japanese imports. Formal notice of the denun-

ciation of the agreement was given to Japan in April, 1933, which was followed by a retaliatory boycott of purchases of Indian raw cotton by Japan. To resolve this unfortunate deadlock, negotiations were successfully conducted by the representatives of the two countries in India and a new agreement, or rather a commercial treaty, was signed in London on the 12th July, 1934.

This was followed by the withdrawal of the Japanese boycott of Indian cotton and the reduction of Indian import duties on non-British goods from 75 per cent to 50 per cent according to the terms of this agreement. Under this agreement, the two countries extended to each other reciprocal most-favoured-nation treatment and agreed to have mutual consultation when tariff changes were contemplated by either country. But Japan did not object to (1) imperial preference as being a contravention of the M.F.N. clause, (2) adequate tariff protection for Indian industries and (3) safeguarding of Indian industries against exchange dumping. The agreement provided for a system of linked quotas by which the quota for Japanese piecegoods was dependent upon the amount of Indian cotton purchased by Japan. The basic minimum quota of raw cotton to be purchased by Japan was fixed at 1 million bales which was linked to a quota of 325 million yards of cotton piecegoods to be imported by India from Japan. There was a sliding scale with regard to India's imports of Japanese cotton piecegoods, set against Japan's imports of Indian cotton, the object of which was to provide an incentive for larger consumption of Indian cotton by Japan; but the maximum quota of cotton piecegoods to be imported from Japan was not to exceed 400 million yards in any 'cotton piecegoods year'. It is interesting to note that the agreement was circumvented to a certain extent by Japan concentrating on the exports of cotton fents, artificial silk fents, and made-up garments, which were outside the categories of piecegoods set out in the protocol and the import duties on which were also lower than on cotton textiles.[1]

The year 1936-37 being a peak year[2] of Japanese imports in the 'thirties, a comparison between the composition and value of important commodities imported from Japan in this year with the

[1] The author predicted the abnormal importation of fents and drew attention to this important loophole in the agreement in the course of a pamphlet entitled *The Indo-Japanese Commercial Agreement* (Indian Press, Allahabad, 1934).

[2] During this year Japan's share in India's imports reached the peak figure of 17 per cent.

composition and value of important commodities in the boom year of 1920-21 will perhaps place the development of India's import trade with Japan before World War II in its proper perspective. Commodities, the total value of which was Rs. 10 lakhs and above in either year, have been selected for purposes of comparison and set out in the following table.

VALUE OF IMPORTS

Rs. (1000)

	1920-21	1936-37	Change
1. Apparel ...	30,87	19,59	— 11,28
2. Brass, bronze, etc. ...	45,30	—	— 45,30
3. Buttons ...	14,71	8,21	— 6,50
4 Camphor ...	19,39	11,32	— 8,07
5. Chemicals ...	13,53	25,65	— 12,12
6. Cotton manufactures ...	14,19,80	6,47,31	— 7,72,49
7. Glass and glassware ...	1,41,08	57,45	— 83,63
8. Haberdashery and millinery ...	29,82	25,19	— 4,63
9. Artificial silk ...	—	3,39,18	+ 3,39,18
10. Earthenware and porcelain	—	19,45	+ 19,45
11. Hardware ...	75,81	27,64	— 48,17
12. Instruments ...	18,06	29,55	+ 11,49
13. Metals ...	4,99	85 34	+ 80,35
14. Machinery ...	12,11	17,38	+ 5,27
15. Matches ...	1,29,58	10	— 1,29,58
16. Paper and pasteboard ...	41,54	10,09	— 31,45
17. Rubber goods ...	2,26	17,03	+ 14,77
18. Raw silk ...	6,17	36,18	+ 30,11
19. Silk manufactures ...	2,95,95	1,27,27	— 1,68,68
20. Stationery ...	14,24	13,25	— 99
21. Toys ...	17,99	28,87	+ 10,88
22. Wood manufactures ...	19,89	3,80	— 16,09
23. Woollens ...	23,20	77.75	+ 54,55
24. Others ...	79,87	1,80,33	+ 1,00,46
25. Cycles and parts ...	—	15,02	+ 15,02
Total (including others) ...	26,43,01	18,88,69	— 7,54,32

The decline in the total value of imports of four principal commodities, viz., cotton manufactures, silk manufactures, matches and glass and glassware as well as decreases under other items

was, however, offset by an increase in the total value of imports of a wide range of other commodities. Many of them were new commodities which replaced the traditional imports from Japan. The most important of them was artificial silk. Increases under the heads of rubber manufactures, non-ferrous metals, woollen manufactures, instruments and machinery, toys, and cycles and parts were also an impressive evidence of Japan's adaptability of supply to changing conditions of export markets. A very interesting item in the table given above is 'others', which included miscellaneous goods, some in the nature of novelties, and the total value of which increased by almost Rs. 1 crore in 1936-37, compared with 1920-21. This again merely underlines the resourcefulness of Japan's production for export.[1]

A review of India's export trade with Japan in the 'thirties may now be presented to round off the account of India's trade relations with Japan during this period.

TOTAL VALUE OF EXPORTS FROM INDIA TO JAPAN

	Average 1926-28 Rs.	Average 1929-33 Rs.
1. Rice and paddy ...	1,65,569	74
2. Beans and peas ...	32,676	19,075
3. Oil-yielding material ...	20,722	1,405
4. Hides and skins ...	1,104	1,236
5. Leather ...	30,851	25,241
6. India rubber and gutta-percha	1,25,876	35,229
7. Raw cotton ...	33,02,301	19,56,766
8. Other vegetable fibres ...	46,936	48,987
9. Ores ...	3,345	8,460
10. Pig iron ...	1,55,805	96,390
11. Iron ingots and slabs ...	1,25,248	—
12. Lead ingots and slabs ...	19,570	1,90,201
13. Tin ingots and slabs ...	6,176	1,588
14. Oil-cake ...	47,121	18,046
	41,12,400	24,02,698

[1] In 1937 a new Agreement was concluded with Japan which replaced the Indo-Japanese Trade Agreement of 1934 after the expiry of the period of this Agreement. While the principles of the first Agreement were maintained, the basic quota for Japanese piecegoods was reduced from 325 million yards to 283 million yards linked to 1 million bales of Indian cotton. The maximum quota for Japanese piecegoods was also reduced from 400 million yards to 358 million yards which was linked with an offtake of 1.5 million bales of cotton. The omission of cotton fents in the 1934 Agreement was made good by prescribing a maximum limit of 8.95 million yards of cotton fents.

PERCENTAGE OF SHARE OF INDIA IN JAPAN'S TOTAL IMPORTS

	1925	1929	1933	1934	1935
1. Rice and paddy ...	40.4	—	—	49.6	6.0
2. Raw cotton ...	51.5	40.3	27.0	34.5	36.3
3. Crude rubber ...	17.6	25.9	1.2	0.8	0.4
4. Phosphorite ...	6.0	3.8	4.0	—	—
5. Vegetable fibres ...	20.2	16.5	23.3	17.8	16.7
6. Ores (iron, zinc, etc.)	—	—	7.3	8.5	8.2
7. Pig iron ...	50.9	59.6	23.0	27.5	30.9
8. Lead ingots and slabs ...	25.3	6.8	16.9	17.0	22.8

The tables given above indicate a distinct change in the composition of India's exports to Japan. We find that Japan was turning increasingly from traditional foodstuffs and raw materials (such as rice and Indian cotton) to semi-processed materials and ores, like iron, zinc, etc. In any case, trade in rice and paddy disappeared after the separation of Burma. The decrease in India's raw cotton exports to Japan in the 'thirties was a firm long-period trend explained by Japan's concentration on higher counts of yarn and increasing purchases of American cotton. India's share of Japan's imports of vegetable fibres also declined, though to a small extent, owing to Japan's increasing purchases in alternative South-East Asian and South American markets. Ores (iron, zinc, etc.) were a new line of exports from India after 1929.

With a sharp relapse to a lower level in 1938-39, the year before the outbreak of World War II, imports from Japan once again showed a rising trend, but, in spite of rising import prices, never reached the level of 1937-38 in terms of value during the first three war years, 1939-40 to 1941-42, which marked the end of an era of India's trade relations with Japan. The following table illustrates the variations in the total value of imports of eight principal commodities which formed about 70 per cent of the total value of all commodities during the three years of World War II.

TOTAL VALUE OF IMPORTS

Rs. (1000)

		1939-40	1940-41	1941-42
1. Artificial silk	...	3,78,81	5,05,75	2,95,31
2. Cotton piecegoods	...	5,12,57	5,65,64	2,49,59
3. Cotton yarn	...	2,42,11	1,34,84	72,83
4. Woollen manufactures	...	70,83	92,95	91,95
5. Silk manufactures	...	55,65	53,08	21,90
6. Instruments	...	29,17	31,01	19,08
7. Hardware	...	24,60	36,72	22,20
8. Glass and glassware	...	53,54	50,87	25,04
Total of all commodities	...	13,67,28	14,70,86	7,97,90

It is clear that the history of the first World War was not repeated during the first three years of the second World War. The disruption of international trade even during the initial phase of the second World War was much greater and import control much tighter. India was more self-sufficient in respect of basic consumer goods than in the period of the first World War. In 1941-42, the last year of normal trade relations before Pearl Harbour, imports from Japan tailed off and were almost one-half in value of what they were in the previous year in spite of the much higher import prices.

The first three years of the war witnessed further contraction in India's exports to Japan. In 1941-42 the total value of exports to Japan was Rs. 4,59,25,000, of which Japan's purchases of raw cotton accounted for a little more than Rs. 4 crores.

On the whole, throughout the 'thirties and the three years of World War II, while India's exports to Japan showed a declining trend, India's imports from Japan showed a rising trend due essentially to the adaptability of Japanese export industries. The opposite movements went so far as to convert India's traditional export surplus with Japan into an import surplus. It is highly probable that in the 'thirties Japan's foreign trade policy was planned in such a way as to avoid a deficit in her balance of trade with the sterling area and a further drain on her foreign exchange

reserves. Japan was seeking new markets in South-East Asia, South America, Central America, Australia and even the U.S.A., as a defensive measure against the exclusion of Japanese textiles from the markets of the sterling area by means of import quotas, exchange compensation duties, or higher tariffs. There is no doubt that this policy was reacting adversely on India's export trade with Japan.

India's trade relations with Japan entered a new phase after the end of the second World War. It is remarkable that Japan's export trade with India has shown, during the last few years, the same degree of resilience and resourcefulness of supply which characterised it in the past. But Japan's resumption of trade relations with India on the basis of such normal conditions as were permitted in Japan's peculiar circumstances had to await the reconstruction of the war-ravaged Japanese economy and the restoration of free enterprise in the field of industry and trade within the limits of exchange and trade controls. Hence, it was not till 1948-49 that post-war Indo-Japanese trade could develop its full variegated character in the context of a new post-war economic situation.

Immediately after the war, Japan's economic transactions with foreign countries and all her foreign exchange funds were placed beyond the control of the Japanese Government. All foreign transactions other than those relating to trade were prohibited. Foreign exchange transactions were exclusively handled by foreign banks. It was only after August, 1947, that private exportation on a restricted basis was permitted. After a year in August, 1948, permission was given to buyers and sellers to conclude direct contracts and in connection with these contracts Japanese banks were permitted to handle foreign exchange, though only domestically. Later, a multiple exchange rates system was adopted to facilitate Japan's foreign trade. Early in 1949, SCAP took the important step of directing the Japanese Government to take measures for enforcing uniform control of foreign exchange and of export and import trade.

On the 25th April, 1949, a single exchange rate of 360 yen to the U.S. dollar was fixed. This was an important factor in the

normalisation of foreign exchange transactions and streamlining of exchange control. Trade procedures were also simplified. The transition to conditions of free enterprise in industry, trade and finance stimulated industrial enterprise and rationalisation. Necessary laws were passed providing for regulation of exports and imports and foreign exchange transactions with a view to stabilising Japan's balance of payments. With effect from the 10th April, 1950, depository correspondent relationships were established between Japanese and American foreign exchange banks. Ultimately, the system of exchange control introduced in Japan early in 1950 placed upon the government the responsibility of operating a foreign exchange budget by which foreign payments could be most effectively used on the basis of anticipated income from abroad.

Japan's industry and trade reacted sharply to the progressive relaxation of economic controls by the occupation authorities. Thus the average index of industrial production (1933-35=100) rose from 44.2 in 1947 to 62.7 in 1948, 78.7 in 1949 and 109.6 in 1950. Similarly, the volume index of Japan's exports (1934-36=100) rose from 7 in 1948 to 15 in 1949 and 29 in 1950 ; and the volume index of imports rose from 18 in 1948 to 28 in 1949 and 33 in 1950.

The following comparative table indicates the categories and total values of India's imports from Japan in 1948-49 and 1949-50:

TOTAL VALUE OF IMPORTS FROM JAPAN

	1948-49	1949-50
1. Apparel ...	1,261	6,055
2. Beltings for machinery ...	57,409	3,89,545
3. Bobbins ...	98,854	17,33,537
4. Brushes and brooms ...	538	12,137
5. *Building and engineering material, other than of iron, steel or wood* ...	11,22,300	99,42,848
6. Buttons ...	53,298	8,75,349
7. *Chemicals and chemical preparations* ...	13,05,802	3,37,495
8. Clocks and watches and parts	5,29,125	17,87,916
9. Drugs and medicines ...	4,52,527	12,54,667
10. Earthenware and porcelain ...	27,104	15,99,837
11. Fresh fruits ...	1,66,098	41,844
12. *Glass and glassware* ...	13,23,353	32,56,372

	1948-49	1949-50
13. Hardware ...	4,64,783	36,35,248
14. Instruments, apparatus, appliances ...	2,47,143	25,98,594
15. Leather manufactures other than belting ...	11,713	1,08,157
16. *Machinery and millwork* ...	97,96,703	5,97,95,325
17. Mats and matting ...	25,598	1,99,120
18. *Metals* ...	12,50,274	77,92,051
19. Oils ...	785	1,50,032
20. Paints and painter's materials	1,14,230	4,232
21. Paper and pasteboard ...	8,85,180	12,31,496
22. Precious stones and pearls ...	—	1,37,473
23. Printing and lithographing machinery and materials ...	—	2,71,444
24. Provisions and oilman's stores	63,081	1,11,947
25. Stationery ...	38,023	7,53,795
26. Tea chests ...	7,36,283	9,37,653
27. *Cotton manufactures* ...	1,12,66,379	4,00,42,201
28. Haberdashery and millinery ...	208	1,72,747
29. Silk cocoons ...	20	8,46,186
30. Other sorts of raw silk ...	53	1,72,277
31. Silk manufactures ...	3,152	7,59,617
32. Yarn and knitting wool ...	78,339	41,95,326
33. *Woollen manufactures including yarn and knitting wool* ...	52,95,670	1,39,77,265
34. *Artificial silk* ...	2,60,79,446	4,77,56,218
35. Toys and requisites for games	10,549	2,28,661
36. Umbrella fittings ...	7,01,504	21,45,255
37. Vehicles excluding locomotives	2,82,156	24,00,252
Total including others ...	6,37,96,191	21,37,12,059

In 1948-49 many of the staples of Japanese exports to India once again figured in Japan's export trade. Commodities, the total value of each of which was Rs. 10 lakhs and over, may be arranged in order of importance as follows :

	Rupees
1. Artificial silk ...	2,60,79,446
2. Cotton manufactures ...	1,12,66,379
3. Machinery and millwork ...	97,96,703
4. Woollen manufactures including yarn and knitting wool ...	52,95,670
5. Glass and glassware ...	13,23,353
6. Chemicals ...	13,05,802
7. Metals ...	12,50,274
8. Building and engineering materials ...	11,22,300
Total ...	5,74,39,927

These eight commodities accounted for 90 per cent of the total value of imports of all commodities from Japan in 1948-49. Amongst them the textile group of commodities—artificial silk,

cotton manufactures and woollen manufactures—maintained their traditional pre-eminence. While before the war India was an important market for Japanese artificial silk piecegoods, in 1948-49 artificial silk yarn itself was the most important commodity imported from Japan in spite of the fact that in the post-war period the Japanese trade in rayon filament yarn was restricted by import control in India. Japanese woollen manufactures which were also coming into prominence before the war seem to have resumed their importance in the Indian market after a long break. Before the war Japan commanded a small, but growing market in India for steam-boilers, pumps, electrical machinery, and metal and woodworking machinery. In 1948-49 the imports of machinery and millwork occupied the third place of importance mainly as the result of the post-war shortage of industrial machinery available in alternative supplying countries. Similarly, Japan met the acute post-war shortages of industrial raw materials like building and engineering materials, chemicals and metals. Owing to the rise in the world prices of metals, the metal-mining industry of Japan has in recent years witnessed considerable expansion.

The various categories of India's imports from Japan in 1950-51 and 1951-52 and their respective values are given in the following comparative table :

Total Value of Principal Imports from Japan

(In Rs.)

	April to March 1950-51	1951-52	Change	
1. Drugs and medicines (camphor) ...	13,37,387	33,75,893	+	20,38,506
2. Hardware ...	53,28,908	54,35,376	+	1,06,468
3. Machinery and millwork ...	1,44,90,099	4,12,87,400	+	2,67,97,301
4. Metals ...	1,47,10,323	53,25,802	—	93,84,521
5. Paper and pasteboard ...	55,97,307	30,63,596	—	25,33,711
6. Cotton twist and yarn ...	—	4,60,961	+	4,60,961
7. Grey cotton piecegoods ...	53,628	16,051	—	37,577
8. Silk cocoons and raw silk ...	1,02,83,346	1,42,90,835	+	40,07,489
9. Artificial silk yarn ...	1,33,66,039	5,00,23,545	+	3,66,57,506
10. Umbrella fittings ...	4,20,568	15,37,289	+	11,16,721
11. Staple fibre yarn ...	4,97,801	98,08,362	+	93,10,561
Total including others ...	10,04,11,962	24,62,75,984	+	14,58,62,022

ORDER OF IMPORTANCE OF COMMODITIES OF THE TOTAL VALUE OF RS. 10 LAKHS AND OVER

1950-51	Rs.	1951-52	Rs.
1. Metals ...	1,47,10,323	1. Artificial silk yarn	5,00,23,545
2. Machinery and millwork ...	1,44,90,099	2. Machinery and millwork ...	4,12,87,400
3. Artificial silk yarn	1,33,66,039	3. Silk cocoons and raw silk ...	1,42,90,835
4. Silk cocoons and raw silk ...	1,02,83,346	4. Staple fibre yarn ..	98,08,362
5. Paper and pasteboard	55,97,307	5. Hardware ...	54,35,376
6. Hardware ...	53,28,908	6. Metals ...	53,25,802
7. Drugs and medicines	13,37,387	7. Drugs and medicines	33,75,893
		8. Paper and pasteboard	30,63,596
		9. Umbrella fittings ...	15,37,289

The drop in the total value of imports by a little more than 50 per cent in 1950-51, as compared with 1949-50, was more spectacular than the increase of almost Rs. 15 crores in 1949-50. It will be observed that in 1950-51, a year of rigid import controls, necessitated by India's balance of payments crisis, imports of consumer goods like cotton manufactures virtually vanished. But purchases of capital goods and processed industrial raw materials like metals, paper and pasteboard, silk cocoons and raw silk and staple fibre yarn (a new commodity) increased in value. High Japanese export prices during the period of the rearmament boom were mainly responsible for the uptrend in total values. Owing to the reduced export capacity of the U.S.A. and Western European countries, foreign demand was concentrated on Japanese export goods in 1950-51. For example, a rush of orders for Japanese textiles was obtained from countries of South-East Asia in particular. As a result, Japanese export prices in general increased by 89.2 per cent during the period from the outbreak of the Korean war to April, 1951. This naturally restricted imports from Japan to India and reduced the range of imports to absolutely essential categories. In the first half of 1950, Japan's exports to the sterling area in general, and India in particular, had been slack due mainly to the higher cost of Japanese goods, as compared with British goods, in consequence of the devaluation of sterling and delays in the issue of import licences by the sterling area countries. These adverse factors vanished by November, 1950 and pressure of demand impinging on a seller's market boosted up Japan's export trade with the sterling area in 1951. This is indicated by the sharp rise in imports from Japan to India in 1951-52. But

Japan is being currently treated as a hard currency country because of the dollar payment provision in Japan's trade agreements with the sterling area countries, under which sterling acquired by Japan in excess of a specified amount has to be converted into dollars. In this respect there is a difference between the method of settlement applicable to India and that applicable to certain other countries of South-East Asia, such as Hongkong, Indonesia, Indo-China, the Philippines, and Thailand. In the case of the latter there is the system of open account settlement under which all receipts and payments between them and Japan are debited or credited on the books of a specified agency and set off at specified periods. Only the balance outstanding is settled in cash. Exchange clearing arrangement of this kind is designed to avoid payment in scarce U.S. dollars, and, while maintaining equilibrium in the balances of payments of the trade-agreement countries, has stimulated the expansion of Japan's trade with this group of countries.

The increase in the total value of imports from Japan by as much as Rs. 14½ crores in 1951-52, as compared with 1950-51, was even more spectacular than the decrease of Rs. 5 crores in 1950-51, as compared with 1949-50. Part of the increase is explained by high export prices of Japanese goods in 1951-52. Export prices of Japanese consumer goods, like textiles, showed a downward trend in 1951. But export prices of strategically essential materials (metals imported into India) had an upward trend. Prices of machinery, construction materials, and chemicals also advanced during this year. Reference has already been made to concentration of Indian demand on essential capital goods and semi-processed raw materials. In 1950-51 and 1951-52, this particular trend was more and more in evidence. In the category of capital goods, machinery and millwork is the most important item. The total value of imports of machinery and millwork from Japan increased by a little more than Rs. 3 crores in 1951-52, as compared with 1950-51, and this item also retained its relative place of importance (the second place) among imports. India imported from Japan oil engines of the value of Rs. 60,59,769 in 1950-51 and of the value of Rs. 3,40,68,920 in 1951-52. Imports of textile machinery were valued at Rs. 84,30,330 in 1950-51 and Rs. 72,18,480 in 1951-52. These two types of machinery accounted for the entire imports under the head of machinery and

millwork. In anticipation of higher prices ahead following the outbreak of the Korean war, Indian textile interests were anxious to buy spinning machinery, but Japanese manufacturers had on hand a backlog of domestic orders for more than one and a half year's production and were unable to accept export orders because of the factor of delivery time. Otherwise, imports of textile machinery would have easily reached much higher levels than are indicated by the figures given above. The various classes of metals imported into India from Japan in 1950-51 and 1951-52 are set out below :

	1950-51 Rs.	1951-52 Rs.
Unwrought copper ...	99,73,338	30,433
Wrought copper ...	3,91,405	—
Bolts and nuts ...	7,78,374	1,78,184
Wire ...	29,31,822	51,17,185
Lead ...	6,35,384	—
	1,47,10,323	53,25,802

In the case of metals, Indian imports declined due to domestic shortages in Japan as the result of the armament boom. The stockpile of copper scrap, the principal raw material for the manufacture of electrolytic copper, was exhausted by March, 1951, and since import of copper ore was not commercially possible and considerable time was needed for developing domestic copper mines, the export of copper from Japan was bound to be reduced to negligible quantities in 1951-52. It is remarkable that the increase in the imports of yarn (cotton twist and yarn, artificial silk yarn and staple fibre yarn) accounted for as much as 31 per cent of the increase in the total value of imports of all commodities from Japan in 1951-52 ; and if we take both machinery and yarn, they account for 50 per cent of the increase in the total value of imports of all commodities from Japan. The stepping up of production of textiles in India, to keep up a high level of exports after meeting home demand, presumably created a heavy demand for imported yarn (not necessarily cotton yarn) which could feed the weaving section of the Indian textile industry particularly producing textiles for export.

Let us briefly review the post-war trend of India's export trade with Japan which also shows increasing concentration of demand on a few essential categories.

Total Value of Exports to Japan

(In Rs.)

	(1947-48)	1948-49	1949-50
1. Bones for manufacturing ...		—	1,38,196
2. Magnesite ...		—	8,31,372
3. Coal ...		6,91,610	1,99,260
4. Manufactured coir (excluding rope) ...		12,59,400	4,218
5. Drugs and medicines ...		157	19,455
6. Dyeing and tanning substances		—	84,150
7. Fibre for brushes and brooms ...		—	1,12,309
8. Raw hides and skins ...		—	1,49,863
9. Cuttings of raw hides and skins		1,53,848	8,93,212
10. Lac	5,45,492	1,18,700	—
11. Hides and skins, tanned or dressed	—	4,13,162	4,86,186
12. *Metals, ores and minerals*	—	35,84,690	57,11,736
13. Mica	—	12,73,427	7,42,908
14. Salt	—	—	3,40,377
15. Oilseeds (non-essential) *castor seeds*	—	—	24,58,122
16. *Groundnuts*	—	—	20,31,412
17. *Linseed*	—	—	16,13,564
18. Spices	—	—	1,76,223
19. *Raw cotton*	—	3,26,48,596	3,67,64,646
20. Cotton waste	—	10,93,400	—
21. *Raw jute*	—	46,19,674	33,34,856
22. Tobacco	—	—	9,82,246
23. Unmanufactured postal articles	—	4,950	2,02,207
Total including others ...		4,58,97,361	5,73,23,018

Total Value of Exports to Japan

(Rs. 1 lakh and over in value in each case)

	1950-51	1951-52
1. Coal ...	37,75,390	2,63,48,142
2. Raw hides and skins ...	6,03,560	11,15,433
3. Lac ...	13,86,594	5,29,471
4. Metals, ores and minerals ...	1,20,17,830	1,94,29,070
5. Mica ...	9,69,463	31,52,219
6. Castor seeds ...	1,19,68,976	7,07,414
7. Linseed ...	3,09,90,897	33,34,913
8. Raw cotton ...	30,97,869	5,53,36,681
9. Cotton waste ...	1,00,53,463	28,64,925
Total including others ...	9,85,40,267	14,28,44,925

In 1948-49 metals and ores, raw cotton and raw jute accounted for a little more than Rs. 4 crores or about 89 per cent of the total value of India's exports to Japan. In the category of metals and ores, the only items were pig iron and manganese ore—the basic raw materials of Japan's iron and steel industry. Since Japan has no access to the Manchurian and Chinese sources of supply, naturally India's manganese and pig iron are the most essential commodities which Japan is anxious to import in large quantities. But domestic shortages of iron and steel in India leave no other alternative than limited exportation of pig iron, if not of manganese. India's exportable surplus of raw cotton has been considerably reduced by the partition, although the recent increase in the production of cotton in India has made it possible for her to export part of the supply depending upon the size of the crop and the availabilities of imported cotton. It will be noticed that the total value of exports from India to Japan increased by about Rs. 1 crore in 1949-50, compared with 1948-49. In this year oilseeds entered into the trade as an important commodity. Taking metals and ores, raw cotton, raw jute, and oilseeds together, we find that they accounted for 90 per cent of the total value of exports in 1949-50. There was decrease under raw jute, but it was more than offset by increases under other heads and the oilseeds exports. We notice a spectacular increase in the total value of India's exports to Japan in 1950-51 and 1951-52. The most noticeable increases were in respect of coal, raw cotton, metals and ores, and mica. India's pig-iron exports decreased owing presumably to smaller availabilities, but manganese exports expanded. There was a drastic reduction in the total value of exports of cotton waste (apparently because more raw cotton was available) as well as of oilseeds. But it was much more than offset by the increase in the total value of exports of raw materials, needed to sustain the phenomenal expansion of Japan's cotton textile industry and industries affected by the armament boom, particularly the iron and steel industry.

Taking the trends of both imports and exports during the post-war period, one notices a persistent passive balance of trade which India had with Japan. Under the sterling agreement with Japan the passive balance is liquidated with sterling payment up to a limit beyond which dollar settlement is required.

For one thing, the size of the passive balance which can be sustained in these circumstances depends upon current sterling balances earned by India and/or the sterling releases. For another thing, the sterling area as a whole has to see that large dollar commitments are not incurred.

CHAPTER 8

CHINA

INDIA'S economic relations with China in the field of trade date back to very ancient times when merchant adventurers used to cross the barriers of mountains, seas, and deserts in search of markets in either country. As a matter of fact, it was the search for a sea-route to China, as an alternative to the overland route, which led to the expansion of Indian maritime, commercial, and even colonial enterprise in South-East Asia. But during the era of the imperialistic expansion of Western powers in South-East Asia, the evolution of the set colonial economic pattern in the countries of this region resulted in such a re-orientation of their trade that intra-trade within the region was reduced to the minimum, and these countries became isolated from one another from the point of view of their trade relations. During the last century and a half, although China was technically a sovereign state, yet by virtue of the policies of 'open door' and 'extra-territoriality', relentlessly pursued by the great powers, her economic development, if not her political status, conformed to the colonial type. Thus her foreign trade was strongly oriented towards advanced industrial countries, like the U.S.A., Germany, the United Kingdom, and Japan. Consequently, China's trade with India has been insignificant, as compared with her trade with these countries.

1936		1936	
Provenance of imports	Percentage of the total value of China's imports	Exports to	Percentage of the total value of China's exports
U.S.A.	19.66	U.S.A.	26.40
Japan	16.29	Hongkong	15.20
Germany	15.94	Japan	14.45
Great Britain	11.72	Great Britain	9.19
Netherlands East Indies	7.90	Germany	5.55
India (including Burma)	2.63	France	4.31
		India	2.65

Although trade between India and China has been insignificant relatively to their population and economic potential, yet it is interesting to note that food, raw materials, and manufactured products have figured in the imports and exports of each country, so that trade between India and China has had a more diversified and specialised character than trade between India and any other country of South-East Asia. The following statistics of trade for the year 1902-03 illustrate this interesting fact :

VALUE OF IMPORTS FROM CHINA (Rs.)
1902-03

		Rs.
1. Grain and pulses	...	9,25,955
(pulses)		(8,35,815)
2. Liquors	...	17,949
3. Provisions	...	1,53,182
4. Tea	...	13,24,645
5. Metals and manufactures	...	20,28,388
6. Drugs, medicines and narcotics	...	8,97,561
7. Chemicals	...	28,049
8. Oils	...	27,097
9. Raw materials and unmanufactured products	...	48,39,610
10. Yarns and textile fabrics (including cotton, woollen and silk goods)	...	36,81,158
11. Apparel	...	2,55,560
12. Glass and glassware	...	6,80,823
13. Paints and colours	...	2,23,061
14. Other articles	...	50,15,150
Grand Total	...	2,19,89,607

VALUE OF EXPORTS FROM INDIA TO CHINA (Rs.)
(INDIAN MERCHANDISE)
1902-03

		Rs.
1. Food and drink	...	33,74,424
2. Metals and manufactures	...	5,815
3. Chemicals, drugs,[1] medicines and narcotics and dyeing and tanning materials	...	6,23,72,364
4. Oils	...	32,040
5. Gums and resins	...	13,641
6. Ivory	...	20,313
7. Jewellery	...	7,675
8. Yarn and textile fabrics (including jute, cotton, etc.)	...	8,65,81,458
9. Apparel	...	39,524
10. Others	...	3,40,349
Grand Total	...	15,85,78,289

[1] China used to import from India Chinese medicinal drugs like cinnamon bark, clove, putchuk, laka-wood, Asafoetida, myrrh, rhinoceros horns, cow bezoar (bulk from India), etc.

It will be noticed that food, drink, and raw materials were important articles of export of both countries in 1902-03. Similarly, chemicals, medicines, and narcotics figured in the exports of each country to the other. Specialities of apparel, yarn, and textiles were also exchanged between the two countries. In 1902-03 India had an export surplus of more than Rs. 3½ crores with China and a total trade of more than Rs. 18 crores.

During the second decade of the present century including the period of the first World War, India's trade with China showed a tendency to contraction. We find a change in the composition of trade as well as in the relative importance of the commodities entering into trade. The following tables would be found interesting in this connection :

TOTAL VALUE OF EXPORTS FROM INDIA TO CHINA
(EXCLUSIVE OF HONGKONG AND MACAO)

Commodities	1911-12 £	1913-14 £	1914-15 £	1915-16 £
Raw cotton ...	1,30,000	2,26,000	2,48,000	5,99,000
Cotton twist and yarn ...	24,10,000	27,32,000	16,51,000	20,34,000
Piecegoods ...	3,000	6,000	1,000	3,000
Grain, pulses and flour	1,41,000	30,000	12,000	42,000
Jute manufactures ...	2,51,000	3,38,000	3,95,000	4,76,000
Opium ...	36,15,000	—	—	—
Tea ...	1,37,000	3,38,000	2,61,000	3,44,000
Others ...	44,000	1,31,000	1,20,000	80,000
Total ...	67,31,000	38,01,000	26,88,000	35,78,000

TOTAL VALUE OF IMPORTS FROM CHINA
(EXCLUSIVE OF HONGKONG AND MACAO) INTO INDIA

Commodities	1911-12 £	1913-14 £	1914-15 £	1915-16 £
Raw silk ...	4,73,000	6,34,000	5,37,000	5,74,000
Silk manufactures ...	2,54,000	2,57,000	2,27,000	3,22,000
Tea ...	1,13,000	73,000	88,000	84,000
Others ...	1,94,000	1,73,000	1,93,000	3,03,000
Total ...	10,34,000	11,37,000	10,45,000	12,83,000

An analysis of exports shows that the very substantial decline in the total value of exports during this period was due to the loss of the opium trade. There was also a substantial decline in the total value of grain, pulses, and flour exported from India to China. On the other hand, there was an increase in the total value of exports of raw cotton, with almost an equivalent decrease in the total value of exports of cotton twist and yarn—a trend which reflected the effects of the development of the Chinese cotton textile industry. This industry was started in China (largely with Japanese capital) in 1890. India's yarn export trade with China was adversely affected by the closure of the Indian mints to free coinage of silver in 1893, and the process of decline was helped by the growth of the Japanese cotton textile industry. But still India's exports of cotton twist and yarn to China were considerable in the early years of the present century. There was a rapid development of the cotton textile industry in China between 1913 and 1934. Whereas in 1913 China had 34 cotton mills with 8,36,828 spindles, in 1934 she had 136 mills with 46,80,000 spindles. There was thus a gradual decline in the imports of Indian cotton twist and yarn into China, which continued during the 'twenties. The considerable decrease in the total value of exports of grain, pulses and flour was more than offset by the increase in the total value of exports of jute manufactures (due to the impact of China's economic development) and by the increase in the total value of exports of Indian tea to China.

On the side of imports, there was an increase during this period in the total value of imports of raw silk and silk manufactures, the principal commodities imported from China. This increase was remarkable in view of the fact that China's silk exports were declining in importance and Japanese silk was tending to replace it in the world markets. India was importing during this period white silk not re-reeled, about 60 per cent of yellow silk, yellow re-reeled silk, for which India was China's best customer next to France, and also yellow filature silk. Chinese tea was also losing ground to black tea produced in other Asian countries.[1] Indeed, the increase in the total value

[1] Tea which accounted for 50 per cent of China's exports in 1870 and 15 per cent in 1900 formed only 9 per cent of China's exports in 1900. The percentage contribution of silk declined from 50 per cent in 1870 to 25 per cent in 1910.

of exports of tea from India to China and the decrease in the total value of imports of Chinese tea into India are explained by the same underlying cause.[1] Two interesting inferences may be drawn from the statistics :—(*a*) that the total value of imports from China into India showed much greater stability than the total value of India's exports to China ; and (*b*) that India had a considerable export surplus with China during this period.

The total values of both exports to, and imports from, China reached high levels during the post-war boom year of 1919-20, even when we compare 1919-20 with the pre-war peak year, 1911-12. The comparative statistical position is indicated in the following tables :

TOTAL VALUE OF EXPORTS FROM INDIA TO CHINA (EXCLUSIVE OF HONGKONG AND MACAO)

Commodities		1911-12 £	1919-20 £
Raw cotton	...	1,30,000	19,90,000
Cotton twist and yarn	...	24,10,000	79,64,000
Piecegoods	...	3,000	29,000
Grain, pulses and flour	...	1,41,000	—
Jute manufactures	...	2,51,000	5,19,000
Opium	...	36,15,000	—
Tea	...	1,37,000	4,000
Others	...	44,000	3,16,000
Total	...	67,31,000	1,08,22,000

TOTAL VALUE OF IMPORTS FROM CHINA (EXCLUSIVE OF HONGKONG AND MACAO) TO INDIA

Commodities		1911-12 £	1919-20 £
Raw silk	...	4,73,000	14,80,000
Silk manufactured	...	2,54,000	13,70,000
Tea	...	1,13,000	1,92,000
Others	...	1,94,000	7,91,000
Total	...	10,34,000	38,33,000

[1] Dr. F. Otte, writing in the *Chinese Economic Journal* (February, 1927) said, "So far Chinese tea dealers have not been successful in competing with Indian tea, probably because the idea of standard quality—an indispensable factor in foreign trade—has not yet fully entered into the consciousness of the producers."

The increase in the total value of exports and imports in 1919-20, compared with 1911-12, was remarkable and cannot be explained entirely in terms of the rise of prices during the post-war boom. There was a considerable increase in China's purchases of raw cotton[1] and of cotton twist and yarn, although her purchases of the former increased much more than her purchases of the latter. There were no exports of grain, pulses and flour, and opium (important commodities before the war) in 1919-20, and export of Indian tea was very small, as compared to pre-war. But the loss of trade in these commodities was much more than offset by the increase in exports of raw cotton, cotton twist and yarn, and of a large range of miscellaneous goods to China ('others' in the above table). The rise in the price of silver in 1918, which converted China's export surplus into an import surplus, was one of the factors which explain China's increasing absorption of Indian products during this period. As regards imports, India's remarkably larger purchases of tea, raw silk, and silk manufactures in 1919-20 were due to the fact that these are commodities for which the income-elasticity of demand is very high.

During the 'thirties India's export trade and import trade with China showed divergent trends. While the total value of exports to China declined steadily, the total value of imports from China was higher than before the first World War, but declined later to a lower level. Before an attempt is made to explain these somewhat inexplicable trends, it would be best to present the comparative statistical position.

TOTAL VALUE OF EXPORTS FROM INDIA TO CHINA (EXCLUSIVE OF HONGKONG AND MACAO)

Commodities		Pre-war average Rs.	1932-33 Rs.	1938-39 Rs.
Raw cotton	...	42,79,000	1,32,75,000	1,71,15,000

[1] In 1920 about 20 per cent of the raw cotton consumed in Shanghai Chinese cotton mills came from India. The popularity of Indian cotton was due mainly to its cheapness and it was used in spinning coarse yarn.

Commodities	Pre-war average Rs.	1932-33 Rs.	1938-39 Rs.
Cotton twist and yarn ...	4,10,64,000	2,000	2,84,000
Piecegoods ...	2,70,000	43,000	19,000
Grain, pulses and flour	12,32,000	1,79,99,000	4,000
Paraffin wax ...	1,22,000	14,51,000	3,15,000
Jute and manufactures	60,34,000	15,71,000	20,70,000
Tea ...	35,95,000	—	1,000
Others ...	3,06,43,000	13,17,000	43,92,000
Total ...	8,72,39,000	3,56,58,000	2,47,00,000

TOTAL VALUE OF IMPORTS FROM CHINA (EXCLUSIVE OF HONGKONG AND MACAO) TO INDIA

Commodities	Pre-war average Rs.	1932-33 Rs.	1938-39 Rs.
Cotton yarn and piecegoods	25,000	85,22,000	64,71,000
Raw silk ...	83,44,000	96,52,000	32,27,000
Silk manufactures ...	35,67,000	61,52,000	29,67,000
Spices ...	37,000	5,70,000	5,11,000
Tea ...	10,70,000	18,40,000	2,40,000
Others ...	27,55,000	27,55,000	29,67,000
Total ...	1,57,98,000	2,94,91,000	1,73,46,000

The drastic decline in the total value of exports from India to China was the consequence of the depression. From 1929 to 1932 the Chinese currency steadily depreciated as the result of the fall in the price of silver. Commodity prices in China were higher in 1931 than in 1913. The falling prices of silver discouraged imports and encouraged domestic production of imports or substitutes for them. The raising of the customs tariff in 1929 and again in 1930 from the traditional 5 per cent level to a scale going up to even 50 per cent (as a protectionist measure) also had a restrictive effect on imports. The trade depression was reflected in the decline in the value of India's exports of jute and manufactures to barely one-fourth of the value of exports before the war. We find also a drastic decline in the Chinese consumption of Indian piecegoods, cotton twist and yarn, paraffin, and tea. The decline in the imports of piecegoods and cotton twist and yarn is explained by the steady growth of the Chinese cotton textile industry to which reference was made earlier. Disappearance of Indian tea as an export item was probably due to the restrictive effects of both the falling price

of silver and the higher customs tariff. The most remarkable trends were, however, the substantial increases in India's exports of raw cotton and of grain, pulses and flour to China during the period of depression. It appears that these were part of a long-run trend inherent in the Chinese economic situation during the first quarter of the present century.

	China's imports of rice (Average in thousand metric tons)	China's imports of raw cotton (Average in thousand metric tons)
1901-1905	272	106
1906-1910	452	55
1911-1915	345	114
1916-1920	375	219
1921-1927	1018	1114

The steady depreciation of the Chinese currency due to the falling price of silver should have operated as a stimulus to China's export trade. But most of China's exports—raw silk, peanuts, wood oil, beans, bean oil, etc.—being not necessaries, the foreign demand for them was sharply reduced during the depression. Immediately before the second World War, it was quite clear that Chinese raw silk and silk manufactures were declining in importance, owing to the deterioration of the quality of Chinese silk, the rising importance of Japanese silk manufactures (based on better weaving and dyeing techniques) and the competition of artificial silk. Chinese tea was also steadily losing ground in the Indian market and Indian demand was being concentrated only on China's green tea. On the other hand, China's export trade with industrial countries was more diversified and had a broader basis. For example, beans and bean products leapt into prominence as China's export products from 1908 onwards and outstripped raw silk in 1926. India did not provide a market for beans and bean products, peanuts, wood oil, eggs and egg products, etc. Naturally, therefore, India's import trade with China was gradually confined to an increasingly narrow range and diminished in total value by the end of the inter-war period.

The principal commodities exported from India to China are arranged in the order of their importance in the following table. We have also indicated in each case the position of India as a supplying country.

Principal exports to China in 1938-39	Percentage of total exports to China	Value imported into China-pre-war average (in G.U. '000)	India's share (in G. U. '000)
1. Raw cotton	69.2	6,251	1,870
2. Coal	14.2	5,513	1,168
3. Unmanufactured tobacco	4.8	8,293	18
4. Raw jute	4.5	760	760
5. Gunny bags	2.4	1,781	1,087
6. Gunny cloth	1.2	371	346
7. Cotton twist and yarn	1.2	1,321	237
8. Paraffin wax	1.2	3,863	77
9. Jute rope and twine	0.4	421	93
10. Others	0.3		—
11. Provisions	0.2	637	31
12. Sandalwood oil	0.2	43[1]	30[1]
13. Jute twist and yarn	0.2	3	2

It is clear that commodities exported from India which accounted for the highest percentages of the total value of exports to China were also those in respect of which India was the principal supplier. They were essential industrial raw materials like coal, raw cotton and raw jute, and manufactures of jute. With the separation of Burma, paraffin wax was reduced to insignificance as an article of export. Sandalwood was an important commodity of which India was the principal supplier. But since it is an article of luxury its demand was limited, and it was, moreover, subject to a duty of 25 per cent *ad valorem*. Items included in provisions were also luxuries, the demand for which was limited and the duty on which was 35 per cent *ad valorem*. Unmanufactured tobacco (leaf tobacco) figured in 1938-39 as an article of export, the total value of which accounted for 4.8 per cent of the total value of exports. Before the war, flue-cured and sun-cured tobacco and sometimes mixed tobacco were imported from India, but there was dissatisfaction in China about the quality of Indian tobacco. It is probable that Indian leaf tobacco stepped into the breach left by the disruption of supplies of tobacco from northern China.

The principal commodities imported from China to India are arranged in the order of their importance in the following table.

[1] Sandalwood including dust.

The position of China as a supplying country has also been indicated in each case.

Principal imports from China in 1938-39	Percentage of total imports from China	Value imported into India (pre-war average) (Rs. 000)	China's share (pre-war average) (Rs. 000)
1. Cotton yarn below No. 50	20.2	73,73	18,46
2. Cotton yarn above No. 50	17.3	1,98,09	15,37
3. Raw silk	13.9	3,15	1,10
4. Silk piecegoods	9.8	78,66	59,04
5. Others	9.2	—	—
6. Silk mixtures	5.2	34,40	6,02
7. Raw silk (hand-reeled)	4.6	5,71	4,67
8. Fireworks	4.0	8,81	6,33
9. Pulses	4.0	48,48	5,90
10. Spices (cassia)	2.9	7,74	4,60
11. Silk yarn	2.3	46,66	4,85
12. Electric lamps and parts	1.2	46,11	2,08
13. Green tea	1.2	12,32	5,13
14. Apparel	1.2	29,69	1,66
15. Haberdashery	0.6	55,01	1,36
16. Raw silk waste	0.5	3,15	1,10
17. Metals	0.5	12,10,47	1,08
18. Ores	0.5	2,46	57
19. Batteries for flash lamps	0.5	20,85	60
20. Glass	0.2	96,65	32

If we take all the items under silk—raw silk, silk yarn and manufactures—they accounted for as much as 36.3 per cent of total imports from China in 1938-39. In 'raw silk waste' and 'raw silk hand-reeled' China did not face Japanese competition in the Indian market. (Japan supplied the bulk of the Indian demand for raw silk, other than waste and hand-reeled, silk yarn, silk piecegoods, and silk mixtures). Moreover, since sericulture was a protected industry in India, the protective duties on all of these categories were quite high, the specific duty being an addition to the *ad valorem* element in all cases, except in the case of raw silk waste (the duty being only *ad valorem*) and in the case of silk yarn (the specific duty being an alternative). In the case of cotton yarn also the market for Chinese goods was of a precarious character. Cotton yarn imported from the U.K. was subject to a protective duty of 6 per cent *ad valorem*, whereas cotton yarn imported from China and Japan was subject to a duty of 7½ *ad valorem*. There was a revenue duty of 60 per cent *ad valorem*

on fireworks which was calculated to restrict imports, although the bulk of the demand was met by China. In pulses, China's share was small as compared with Burma's share. Even as regards green tea the major source of supply was Japan. Other commodities in the list were of small importance and do not call for any comment.

During the period of the second World War, India's trade with China shrank to small dimensions, except in 1941-42, in spite of the fact that both India and China were important war bases of the allied nations. The explanation of this is to be found in the dislocation of direct trade caused by shortage of shipping and the danger of shipping losses and in the eventual loss of the coastal areas of China completely to the Japanese.

In 1941-42 India's exports to China were spread over a wide range of commodities. The following table would be found interesting in this connection.

EXPORTS TO CHINA IN 1941-42
(Value in Rs.)

		Rs.
1.	Drugs and medicines ...	32,221
2.	Dyeing and tanning substances ...	16,621
3.	Instruments and apparatus ...	146
4.	Leather ...	348
5.	Metals, ores, minerals ...	65,053
6.	Oils ...	78,133
7.	Raw cotton ...	1,93,89,218
8.	Cotton manufactures including twist and yarn[1] ...	2,93,991
9.	Jute manufactures ...	5,71,125
10.	Tobacco ...	2,91,550
11.	Sandalwood ...	1,11,200
	Grand Total including other goods ...	2,14,98,191

It is evident that staple commodities like raw cotton, cotton twist and yarn, jute manufactures, tobacco, and sandalwood maintained their importance in India's export trade with China. The total value of raw cotton exports to China reached an unprecedented figure because, on the one hand, India was burdened with a large surplus of raw cotton owing to her normal customers being cut off by the war and, on the other hand, China was unable to get supplies from alternative sources of supply at reasonable

[1] Entirely cotton twist and yarn.

prices. The same reason explains the high value of exports of leaf tobacco.

Imports from China into India in 1941-42 covered a surprisingly wide range of goods and obviously included re-exports of a number of commodities urgently needed in India for meeting military requirements.

IMPORTS FROM CHINA IN 1941-42

(Value in Rs.)

		Rs.
1.	Apparel ...	2,03,997
2.	Leather belting and machinery ...	22,841
3.	Bobbins ...	5,00,181
4.	Boots and shoes ...	20,638
5.	Bristles and fibres for brushes and brooms	1,94,846
6.	Brushes and brooms ...	62,418
7.	Buttons ...	89,756
8.	Chemicals ...	28,392
9.	Cordage and rope ...	34,654
10.	Cutlery ...	33,320
11.	Drugs and medicines ...	1,21,531
12.	Coal tar dyes ...	14,69,673
13.	Glass and glassware	4,03,988
14.	Hardware ...	16,37,654
15.	Instruments and apparatus ...	11,62,888
16.	Liquors ...	13,47,868
17.	Machinery and millwork ...	19,73,124
18.	Metals ...	20,03,485
19.	Oils ...	2,25,246
20.	Paper and pasteboard ...	8,78,124
21.	Provisions ...	64,450
22.	Rubber goods ...	43,351
23.	Spices (Cassia) ...	5,49,047
24.	Stationery ...	2,36,923
25.	Tea ...	40,310
26.	Cotton textiles including yarn ...	18,92,519
27.	Haberdashery ...	5,10,951
28.	Raw silk ...	52,62,837
29.	Silk yarn ...	10,28,577
30.	Silk manufactures ...	39,37,115
31.	Art silk piecegoods ...	10,65,661
	Grand Total including other goods ...	2,70,46,365

Imports under these various heads, which were clearly of an adventitious character, dwindled into insignificance in subsequent years owing to the developments of the war in the Far East. It is interesting to note that imports of metals and machinery and millwork were sustained throughout this period, although the total values were insignificant. Imports of oils were, however, appre-

ciable. Imports of stationery were sustained, but the rest of the commodities, including even silk items, ceased to be imported.

India's exports to China during this period naturally show a trend similar to that of imports from China. The range of exports was confined to barely seven essential commodities, as shown below :

Value of Exports to China
(In Rupees) 1945-46

		Rs.
1. Raw cotton	...	1,91,33,382
2. Cotton manufactures (including twist and yarn)	...	20,66,165
3. Metals, ores and minerals	...	1,98,218
4. Sandalwood	...	1,66,857
5. Drugs and medicines	...	1,48,406
6. Instruments and apparatus	...	78,626
7. Oils	...	62,250
		2,18,63,904

In 1946-47 there was a spurt of India's export and import trade with China which was followed by downward adjustment to low levels of both imports and exports, due presumably to the civil war in China and the instability of China's foreign economic relations. These post-war trends are indicated in the following comparative tables :

Value of India's Exports to China
(In Rupees)

	1946-47	1947-48	1948-49	1949-50
1. Chemicals and preparations ...	6,63,275	25,500	26,600	42,187
2. Coal and coke ...	—	—	4,84,660	—
3. Dyeing and tanning substances ...	6,21,021	12,215	21,183	—
4. Fish ...	2,77,827	—	33,930	96,545
5. Fruits and vegetables (dried, salted or preserved) ...	2,714	—	—	2,10,959
6. Instruments, apparatus etc. ...	1,34,633	2,43,720	4,079	18,400
7. Kapok ...	2,57,541	21,755	—	—
8. Lac ...	6,69,226	5,70,675	6,14,760	50,030
9. Leather ...	6,86,783	2,33,176	—	—

	1946-47	1947-48	1948-49	1949-50
10. Machinery and mill-work ...	1,68,044	74,452	14,312	—
11. Metals, ores and minerals ...	1,27,318	1,27,346	63,788	2,100
12. Oils ...	3,14,293	1,55,190	58,316	27,797
13. Rubber manufactures	4,39,680	2,51,953	41,000	—
14. Stationery other than paper ...	16,160	500	2,50,000	—
15. Raw cotton ...	8,68,44,449	8,10,24,609	2,83,92,037	15,15,000
16. Cotton waste ...	2,11,750	—	15,29,900	13,98,960
17. Cotton manufactures	8,72,405	2,64,954	—	42,62,748
18. Raw jute	4,54,090	52,78,434	12,15,550	—
19. Jute manufactures ...	1,70,32,393	1,99,97,044	2,24,83,963	1,47,47,941
20. Tobacco ...	2,70,702	7,99,857	4,05,633	9,82,246
21. Sandalwood ...	13,01,603	3,15,962	41,085	—
22. Others ...	14,00,546	3,40,975	70,866	57,458
Grand Total ...	11,27,66,453	10,96,51,117	5,57,51,062	2,34,12,371

Value of India's Imports from China

	1946-47	1947-48	1948-49	1949-50
1. Hides and skins ...	—	—	20,358	1,60,041
2. Instruments, apparatus and appliances	9,64,215	6,40,877	7,39,945	19,42,591
3. Machinery and mill-work ...	8,99,735	71,477	1,78,594	1,02,003
4. Metals and ores ...	59	15,97,980	11,07,962	13,650
5. Oils ...	3,62,985	5,12,166	2,21,986	1,26,505
6. Provisions and oilman's stores ...	1,68,702	7,154	1,460	962
7. Spices ...	10,54,379	2,24,029	2,38,921	—
8. Tea ...	7,22,573	3,95,914	4,76,198	—
9. Cotton manufactures including yarn ...	—	59,305	10,25,575	79,876
10. Drugs and medicines	7,46,781	2,25,623	70,731	6,682
11. Glass and glassware	18,173	35,107	2,39,192	1,10,541
12. Gums and resins ...	1,434	—	1,08,785	7,014
13. Hardware ...	30,68,167	11,20,497	5,68,683	2,96,527
14. Haberdashery and millinery ...	1,32,903	23,300	1,215	2,590
15. Raw silk and cocoons	1,65,10,813	47,29,962	12,26,219	4,51,900
16. Silk manufactures including yarn ...	1,28,76,335	1,24,95,444	46,48,955	9,80,570
17. Woollen manufactures ...	—	45	42,207	2,79,457
18. Artificial silk ...	29,95,064	14,23,149	5,36,405	1,12,799
19. Others ..	15,32,317	6,30,151	6,72,489	5,79,187
Grand Total ...	4,20,54,635	2,41,92,180	1,21,24,007	52,52,895

India's trade with China in 1950-51 and 1951-52 has reflected the changes in the political and economic structure of New

China. China's foreign trade is being conducted by means of barter or 'link' arrangements regulated by the Ministry of Trade on the basis of trade agreements with other countries. The principle that is observed is that imports should precede exports and that there should be a balancing of exports and imports leaving non-trade items to be disposed of otherwise. Before the outbreak of the Korean war, however, the general trade policy of the People's Government was to promote exports and reduce imports so as to build up a foreign exchange reserve. Since then there has been an attempt to encourage imports of essential commodities, especially machinery and raw materials within the limits set by the operation of the United States' embargo on exports to China.

As the result of the operation of this embargo, China's exports to countries other than the U.S.S.R. and Eastern European countries declined from 69·5 per cent in 1950 to 22·1 per cent during the period January-September, 1951 and her exports to these countries declined from 78·8 per cent to 29·9 per cent during the same period. India's trade with China, however, has increased considerably in 1950-51 and 1951-52. The following table indicates the statistical position:

April to March		Imports Rs.	Exports Rs.	Balance Rs.
1948-49	...	1,21,24,007	5,57,57,062	+ 4,36,33,055
1949-50	...	49,75,632	2,34,12,371	+ 1,84,36,739
1950-51	...	67,42,426	3,46,24,812	+ 2,78,82,386
1951-52	...	15,89,18,154	6,76,58,686	− 9,12,59,468

The total values of both imports from, and exports to, China have increased steadily and appreciably during the last three years. In 1951-52, the total values of imports and exports respectively were three times as much as their values in 1949-50. Before the Korean war, China's general trade policy of creating an export surplus with other trading countries was not evidently implemented in the case of her trade with India. But during the last year for the first time in the history of India's trade relations with China, India had an import surplus with China and that also of the order of more than Rs. 9 crores.

A few comments may be made by way of explaining the phenomenal expansion of India's trade with China during the last two years. In 1951 India imported 66,000 tons of rice and 360,000 tons of milo from China in exchange for jute manufac-

tures under agreements signed in January and May. Published statistics do not disclose the value in rupees of the consignment of food from China, but they do disclose the total values of food imports under each head on Government account and also the total quantities imported under each head. Assuming that Chinese rice was imported into India at least at the same price as rice imported from other countries, the value of rice imported from China in 1951 may be estimated at Rs. 3,70 lakhs. The total value of milo imported from China (on the assumption of purchases at uniform prices) may be estimated at Rs. 11,38 lakhs. Imports of rice and milo from China in 1951 may thus be estimated at Rs. 15,08 lakhs.

CHAPTER 9

THE PHILIPPINES

THE development of the Philippines' economy under the United States' trusteeship has exhibited the same pattern of colonial development as we witness in the neighbouring countries of South-East Asia. Early in the present century, government enterprise as well as private capitalistic enterprise transformed the Philippines' subsistence agriculture into commercialised plantation agriculture. Sugarcane, coconuts, abaca (hemp), and tobacco were developed as valuable export crops on the basis of plantation agriculture. Minerals such as gold, iron, copper, chrome, and manganese began to be extracted and the Philippines became one of the important gold-producing countries of the world. Timber resources were also exploited.

In 1938 agriculture employed about two-thirds of all gainfully employed persons and was the source of three-fourths of the country's exports. Processing of agricultural products, livestock raising, forestry and fisheries, together with agriculture, accounted for 56 per cent of the national income, while mining, services, trade and a small amount of manufacturing accounted for 44 per cent of the national income. 60 per cent of foreign investments was accounted for by United States' capital. While the Philippines shared 34.7 per cent of the total assets of their own business, the Americans shared only 20.6 per cent, the Chinese 25.4 per cent and others (including Indians) 19.3 per cent. The comparatively large share of the Philippines was a striking feature which contrasted with the relative backwardness of indigenous inhabitants in the commercial field in the neighbouring colonial areas.

The relatively high money wages in the Philippines was another point of contrast ; but the higher standard of social services enjoyed by the Philippines, as compared with people in the neighbouring colonial areas, has resulted in a comparatively high cost of living which has made the higher money wages in the Philippines largely illusory. There is no doubt that according to the familiar pattern of economic development under colonialism, the increase of the

country's wealth made the higher and middle classes more prosperous, while the masses of the population suffered from the effects of persistently low real incomes. The Philippines' low-level economy has been so strongly oriented towards a large volume of export trade that internal consumption has become extremely dependent on imports. By 1941 except for rice and fish, which were locally consumed, 98 per cent of the rest of the country's production was for export, and 95 per cent of the export trade was with the United States. Such an economy is bound to generate eventually increasing economic tensions and instability.

The basis of the foreign trade of the Philippines has been an exchange of agricultural products, timber and minerals for imported manufactures. The principal agricultural products produced for export have been sugar, copra, abaca (manilla hemp), tobacco, and lumber and timber. Sugar exports have been the main support of the country's economy and have been sustained since 1936 by the assurance of a duty-free market in the U.S.A. up to a maximum quota of 850,000 long tons. The structure and relative importance of the exports of the Philippines are indicated below :

VALUE OF MAIN EXPORTS FROM THE PHILIPPINES

1936-40 (Average)

Commodity		Value (thousand pesos)
Sugar	...	1,06,632
Coconut products	...	67,330
Mineral products	...	60,362
Abaca and cordage	...	32,250
Tobacco products	...	11,040
Embroideries	...	9,200
Lumber and timber	...	6,656
Canned pineapples	...	2,978

The export structure of the Philippines has been such that it has been adapted to the requirements of high-income, industrialised countries or else includes commodities which are, in many cases, competitive with the exports of the countries of South-East Asia. Moreover, the assimilation of the Philippines' economy with the United States' economy has resulted in the diversion of most of the exports (95 per cent in 1941) to the U. S. market. Naturally, therefore, the Philippines' exports to India and, for the matter of that, to the other countries of Asia (with the exception of Japan)

have been small in volume. In fact till 1938, the Philippines normally had an import surplus with the countries of South-East Asia including India, which was more than offset by the large export surplus with the U.S.A., so that the Philippines had an overall export surplus. After 1938 the trend was reversed, but the deficit in the merchandise balance was more than offset by American civil and military dollar expenditure, exports of newly-mined gold, and transfer to the Philippines' Government of the processing tax levied on the Philippines' coconut oil processed in the United States.

The Philippines constitute a more or less sheltered market for American goods. Under the terms of the Treaty of Paris during the first ten years of the American rule (the country came under the U.S. sovereignty in 1899) the U.S. Government was precluded from according preferential tariff treatment to American goods. During this period which was also one of intensive colonial development the foreign trade of the Philippines doubled itself. The Philippines' Tariff Act was passed in 1909 after the expiry of this period of commercial non-discrimination. Under this Act, and under the Underwood Tariff Act of 1914, the Philippines' goods were brought within the high United States' tariff wall and were admitted to the United States free of duty. Bilateral free trade naturally had the effect of diverting the Philippines' import trade as well as export trade to the U.S.A. The diversion was more pronounced in the case of exports than in the case of imports, and there was a striking increase in the total trade of the Philippines. It should, however, be noted that the U.S.A's increasing share of the Philippines' market is explained not merely by the system of bilateral trade, but also by the development of the U.S.A's diversified export potential after 1909.

The trend of India's export trade with the Philippines may be usefully studied against the general background presented above.

VALUE OF INDIA'S EXPORTS TO THE PHILIPPINES

(Rs.)

	1905-06	1909-10	1920-21	1931-32	1938-39
1. Rice, not in husk ...	6,01,953	3,88,208	2,25,780	Nil	Nil

	1905-06	1909-10	1920-21	1931-32	1938-39
2. Paraffin wax	2,550	32,264	14,220	1,15,500	Nil
3. Vegetable oils (non-essential)	30,194	19,126	160	29,576	54,254
4. Fodder, bran and cattle food	1,28,870	40,197	16,000	11,800	Nil
5. Cotton twist and yarn ...	1,34,664	18,132	1,28,840	Nil	5,11,867
6. Piecegoods ...	9,40,329	3,17,468	Nil	Nil	Nil
7. Gunny bags ...	1,58,354	1,26,900	17,59,130	10,17,802	7,36,636
8. Gunny cloth	—	1,17,271	4,44,410	24,59,643	25,29,152
9. Apparel ...	900	4,995	Nil	Nil	Nil
10. Candles ...	77,000	2,25,049	42,950	Nil	Nil
11. Cordage and rope ...	2,050	5,667	Nil	Nil	Nil
12. Shellac ...	4,140	3,781	4,38,050	48,225	43,656
13. Toys and sports goods ...	160	5,600	Nil	6,227	Nil
14. Coal and coke	Nil	Nil	Nil	3,17,769	1,75,268
Grand Total	20,84,246	13,14,663	32,57,910	40,50,070	41,23,698

It is interesting to note that in 1905-6 the exports in the order of importance in terms of total values were (1) piecegoods, (2) rice not in husk, (3) gunny bags, (4) cotton twist and yarn and (5) fodder, bran, and cattle food. Cordage and rope figured as an exported commodity which was later entirely replaced by internal production for which the Philippines became famous in subsequent times. India also exported two other manufactured products to the Philippines, viz., candles and toys and sports goods and an important raw material, viz., shellac which assumed importance later. The statistics show the immediate restrictive effect of the system of bilateral trade upon imports of competitive manufactured goods from countries other than the U.S.A.

Eventually, the important items of India's exports were confined to the categories of essential raw materials like shellac and paraffin wax, food in the form of unhusked rice, and manufactures of jute in which India had a monopoly and increasing exports of which kept pace with the increasing output of agricultural products in the Philippines and mainly accounted for the increase in the total value of India's exports to the Philippines in 1920-21 and in subsequent years. A remarkable trend which is revealed by the statistics is the increase in the total value of India's exports of shellac.

With the onset of the depression in the 'thirties, the dumping of large rice surpluses by the rice-growing countries of South-East Asia pushed out Indian rice from the Philippines' market. In fact, rice was dumped even into India at abnormally low prices. What was true of rice was also true of cattle food. By 1938-39, however, India's exports of both unhusked rice and cattle food to the Philippines permanently disappeared as the result of the separation of Burma—a trend which was also noticed in the case of India's export trade in rice and cattle food with some of the rice-deficit countries. Disappearance of paraffin wax from India's export trade is also explained by the same general reason. Gunny bags and gunny cloth, however, accounted for a little more than 85 per cent of the total value of exports in 1931-32 and a little more than 8 per cent in 1938-39.

India's imports from the Philippines have always been confined to a narrow range of products. The following table compiled on the same basis of comparability as exports presents the trends of imports :

VALUE OF INDIA'S PRINCIPAL IMPORTS FROM THE PHILIPPINES
(Rs.)

	1905-06	1909-10	1920-21	1931-32	1938-39
1. Tobacco ...	10,044	28,008	1,79,540	2,04,262	32,839
2. Raw hemp ...	3,18,974	2,82,522	8,54,440	1,80,371	3,19,561
3. Cordage and rope of vegetable fibre	5,300	13,896	32,570	1,16,092	1,27,111
Total of all Imports ...	3,41,658	2,71,761	11,25,630	5,11,823	5,67,053

If we leave out the boom year of 1920-21 and make allowance for the rise of prices after 1910, it would seem that imports from the Philippines have shown stability at low levels. As a matter of fact, the total values of imports have been so small relatively that they have hardly reflected any significant trend.

Prospects of India's trade with the Philippines after the second World War have been complicated by the new situation created by the painful adjustment of a war-ravaged economy. The Philippines, like Indo-China, have been facing heavy deficits in

the visible trade account, partly due to the damage suffered by export industries, but mainly as a result of the abnormally high level of imports. The value of imports in 1947, 1948, and 1949 amounted to two and a half times that of exports, resulting in an adverse balance of 46.3 million pesos in 1946, 493.6 million pesos in 1947, 536.2 million pesos in 1948, and 602 million pesos in 1949. The explanation of this phenomenon is the persistent inflationary pressure (due largely to mounting budget deficits), combined with the backlog of demand.

As in the case of Indo-China so also in the case of the Philippines the situation was eased by a steady and substantial flow of dollars from the U.S. Government in the form of grants to cover was damage claims, restoration of public property, payments to Filipino military personnel, and a gift of war surplus goods.[1] But in spite of the large flow of dollars, there was a drain on the foreign exchange reserves because of the persistently high level of imports. There was no other alternative but to resort to drastic import control.

Apart from this general handicap to possible diversification and expansion of India's export trade with the Philippines, there is the additional handicap that in view of the shortage of dollar exchange, which the Philippines have been experiencing now and will be experiencing for many years, the Philippines' Government will not naturally be anxious to encourage imports from a country like India with which the Philippines have normally had an adverse trade balance. Till 1938 the Philippines had an overall export surplus, the import surplus with South-East Asian countries being more than offset by the export surplus with the U.S.A. After 1938 the Philippines had an overall deficit which was more than offset by the flow of dollars through the sale of newly-mined gold and non-commercial American expenditure in the Philippines. After the war, in the context of the Philippines' independence, the flow of dollars cannot continue on a large scale, if the Philippines are to cease to be a dependent economy. At the same time, the productive power of the Philippines' economy has to be restored and its resources deployed on a different basis. In a situation like this an import surplus with an individual country is not likely to be treated

[1] It has been estimated that beginning from the end of the war, till the end of 1951, the U.S. Government spent 1,200 million pesos under these heads and also 2,500 million pesos by way of military expenditure.

with the same degree of unconcern as before. Without some kind of bilateral or triangular exchange clearing arrangements, it is not possible to visualise an expansion of trade between India and the Philippines for both of which the U. S. dollar has become a hard currency.

Trade between India and the Philippines is also inhibited by lack of direct business contacts. There are very few Filipino businessmen in India. There are only about a hundred Indian business firms in the Philippines, mainly interested in textiles and having very few connections with firms in India dealing in other lines of goods. There is no reason why supplies of jute should reach the Philippines not directly from India but through soft currency countries.

Absence of banking and commercial facilities at the main ports and lack of direct shipping communication are also said to be other handicaps in the way of development of trade between the two countries. It is said that commercial facilities at the ports are in the hands of businessmen of other countries strongly entrenched in the Philippines and that rates quoted for commercial facilities are often high when competitive goods are being imported. Sailings are also few and far between and freight rates surprisingly high.

Against these difficulties in the way of expansion of trade must be set certain important factors which are conducive to the expansion of the Philippines' trade with South-East Asia in the near future. The Bell Commission came to the conclusion in 1950 that "the export position of the Philippines will remain vulnerable so long as exports are concentrated on the United States, where a large portion enters under temporarily preferred conditions. . . . It seems inevitable that there should be considerable expansion of the Philippines' exports to Japan of products such as abaca, iron ore, lumber and timber, and coconut products, and imports from Japan of such goods as textiles, iron and steel products, boats and fishing equipment. . . . The Philippines' Government should encourage trade through commercial treaties with Europe and America and neighbouring countries."[1]

The Commission recommended trade and payments agreements for the promotion of trade. Apart from the broader considera-

[1] Bell Report, p. 84.

tions of foreign trade policy, the Philippines are bound to seek goods at lower prices in markets other than the U.S.A. in the face of the threateningly large adverse balance of payments. But at the same time, there is bound to be an increasing tendency to manufacture at home, as the Bell Commission recommended, goods "of a simple character which require no complex industrial plants or refined industrial techniques for their production," so that "the excessive dependence on imports is reduced to enable the Philippines to balance its international payments."[1]

It appears that on balance the trade of the Philippines with countries of the Far Eastern region has been expanding during the last few years on the basis of considerations explained above. The following table would be found interesting in this context :

VALUE OF TRADE OF THE PHILIPPINES

(In $ million U.S.)

	Exports			Imports				
	Asia	India	Japan	Asia	India	Japan	Thai-land	Indo-nesia
January-December 1949	22.0	1.8	11.3	56.9	5.3	16.1	5.2	16.0
January-December 1950	29.6	.8	11.4	42.2	2.2	14.1	0.6	4.5
January-December 1951	31,2	1.4	30.5	76.6	4.6	33.1	12.2	10.8

The post-war commodity composition of India's trade with the Philippines compared with that in 1938-39 is presented below :

INDIA'S EXPORTS TO THE PHILIPPINES

(In lakhs of Rs.)

		1938-39	1950-51
Shellac	...	0.5	3.0
Jute manufactures	...	33.0	87.0
Leather	...	—	7.0
Cotton twist and yarn	...	5.0	—
Vegetable oils	...	0.5	—
Others	...	2	5.0
Total	...	41.0	102.0

[1] Ibid., p. 62.

INDIA'S IMPORTS FROM THE PHILIPPINES
(In lakhs of Rs.)

		1938-39	1950-51
Tobacco	...	0.3	17
Raw hemp	...	3.2	—
Cordage and ropes	...	1.2	—
Metals	...	—	14
Others	...	.8	1
Total	...	5.5	32

The total value of India's exports to the Philippines was about three times as much in 1950-51 as it was in 1938-39. The increase in India's exports of shellac is explained by the growth of the paint industry in the Philippines. The major part of the increase in the value of jute manufactures is accounted for by the rise of export prices. An important item which figured in Indian exports to the Philippines after the war is leather. A fair proportion of imports of leather into the Philippines is unmanufactured leather, soles and uppers, the demand for which is steady and is increasing and the import duty on which has also not been heavy. Since the war, rayon has been growing in popularity in the Philippines. But the restrictions on imports of luxury goods, which include rayon textiles, the existence of large stocks of rayon textiles, the disappearance of China as a source of supply, and the tendency of Filipinos to turn away from expensive American textiles to cheaper textiles are bound to create a market for cotton piecegoods in the Philippines. There are also clear prospects of exports from India of sports goods (in which there is an old established market), mica, raw cotton, and miscellaneous goods. With a little more propaganda a market for Indian tea can be established in the Philippines. Direct trade in linseed oil which has disappeared may also be resumed.

Imports from the Philippines in 1950-51, which were about six times greater than in 1938-39, were confined to practically two main commodities, tobacco and metals. There was a substantial increase in production which has been maintained and was reflected in larger exports of leaf tobacco to India. India has also taken advantage of the existence of a considerable supply of scrap metals in the Philippines such as copper and brass.

India's balance of trade with the Philippines has always been favourable. The size of this balance has been large relatively to

the total volume of trade. The following table would be found interesting in this connection :

	India's Balance of Trade with the Philippines (Lakhs of Rs.)	India's Imports from the Philippines as percentages of India's Exports to the Philippines
1905-6	+ 18	14
1909-10	+ 10	23
1920-21	+ 22	33
1931-32	+ 36	11
1936-37	+ 43	16
1937-38	+ 32	24
1938-39	+ 36	14
1939-40	+ 55	14
1940-41	+ 45	41
1941-42	+ 48	31
Average	+ 35	22
1947-48	+ 82	36
1948-49	+ 1,31	34
1949-50	+ 77	47
1950-51	+ 70	31
1951-52	+ 1,23	32
Average	+ 96	35

It will be noticed that India's export surplus with the Philippines has shown an increasing trend throughout the present century. Whereas before the second World War the size of the export surplus was on the average Rs. 35 lakhs, after the war the average has gone up to Rs. 96 lakhs. This increase is partly explained by the post-war rise of prices, although in 1950 and 1951 the rise in export prices in relation to import prices was greater in the case of India than in the case of the Philippines. As we have already explained, after 1938 the problem of import surplus with countries of South-East Asia has been one of serious concern for the Philippines. It appears from the statistical table that the value of the Philippines' exports to India, expressed as a percentage of their imports from India, which was on the average 22 before the second World War, has risen to 35 in the post-war period. This means that, although India's export surplus with the Philippines has increased in money terms, on the whole, the value of the Philippines' exports to India now forms a higher proportion of the value of their imports from India than before the war.

PART IV

INDIA'S TRADE WITH BRITISH DOMINIONS

CHAPTER 10

NEW ZEALAND

TRADE between India and New Zealand shows a pattern peculiar to dependent economies specialising in primary production, the foreign trade of which is strongly oriented towards the markets of dominant industrial countries, but which, in the course of their economic development, may yet find increasing opportunities of expanding trade amongst themselves. One difference between New Zealand and other dependent economies of South-East Asia is that while primary production in the former is centred on pastoral farming of the advanced Western type characteristic of a temperate belt, primary production in the latter is based on the plantation and mining economies characteristic of the tropical region of monsoon Asia.

New Zealand's predominantly pastoral economy centred on the production of wool, meat, cheese, and butter caters for the requirements of advanced industrial countries and not for those of the low-income population of Asia with its basically different food requirements and food habits. However, predominantly agricultural or pastoral economies, as they develop secondary production, do find an expanding basis of international trade amongst themselves. As we shall see, both New Zealand and India have had recent experience of this phase of economic development. Besides, to the extent that New Zealand may choose to reduce her dependence on the single market of the United Kingdom, her trade with India, Australia or Japan and countries of the Pacific region may expand in the future. In the context of India's trade relations with New Zealand we may, however, note that the limiting factors in the development of trade between these two countries are (1) the fact that Australia and New Zealand are competing economies in respect of production for export over a large range of products, and (2) that the recent growth of secondary industries in Australia may place Australia in a position of natural advantage as a source of supply of manufactured products by virtue of her geographical contiguity with New Zealand.

Ever since the beginning of the present century, India's trade with New Zealand has shown a large active balance which has

always been offset by New Zealand's large accumulation of sterling through her expanding trade in wool, meat, and dairy products with the United Kingdom. Early in the present century, India's imports from New Zealand were quite insignificant, whereas New Zealand bought from India quite a number of commodities under the heads of food and drink, vegetable (non-essential) oils, raw materials including manures, and manufactured products including mainly gunny bags and woolpacks. The following table sets out the items of exports and imports in the year 1902-03 :

Total Value of Exports to New Zealand 1902-03 (In Rs.)

1. Coffee	...	64,14
2. Rice, not in husk	...	24,486
3. Provisions	...	4,347
4. Black tea	...	4,91,767
5. Drugs, medicines and narcotics	...	1,938
6. Paraffin wax	...	18,370
7. Castor oil	...	2,11,785
8. Linseed oil	...	1,12,068
9. Cotton	...	6,308
10. Oilcake	...	400
11. Jute	...	4,675
12. Manure	...	6,13,905
13. Cotton fabrics	...	2,000
14. Gunny bags	...	17,32,830
15. Gunny cloth	...	1,18,357
16. Candles	...	24,982
17. Shellac	...	9,098
Total including others	...	34,05,049

Total Value of Imports from New Zealand 1902-03 (In Rs.)

1. Horses	...	52,000
2. Grain, pulses and provisions	...	1,260
3. Raw materials and unmanufactured goods (cattle feed largely)	...	1,407
4. Manufactures	...	1,915
Total including others	...	57,057

It will be noticed that India's exports in the order of importance were (1) gunny bags and gunny cloth (needed for packing in a pastoral-cum-agricultural economy); (2) manure (also an essen-

tial raw material of livestock and dairy farming); (3) black tea (an essential beverage in a cold country with a widely diffused prosperity and a fairly high average standard of living) and (4) non-essential vegetable oils (a tropical product which New Zealand always imports in fairly large quantities). The total values of these four commodities added up to as much as 96 per cent of the total value of imports in 1902-03. It may be pointed out that India captured New Zealand's jute market in the early 'eighties of the last century, and since then she has regularly exported to New Zealand cornsacks, woolpacks, etc., the amount of which has fluctuated according to the state of New Zealand's export trade.[1]

It was during the period of the first World War that India's trade with New Zealand showed an expanding trend. During this period New Zealand faced comparative isolation from the United Kingdom and continental markets. At the same time, India became a base for the provisioning of the armies fighting in the Middle East. New Zealand, like India, also experienced an expansion of economic activity. The comparative table given below presents a picture of this period of expansion of trade :

TOTAL VALUE OF IMPORTS FROM NEW ZEALAND

(In £)

	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20
1. Farinaceous and patent foods ...	—	—	476	5,111	68	3,080
2. Canned and bottled provisions	—	155	20	1,063	1,550	5,115
Total including others ...	62	325	927	7,438	1,784	8,195

[1] As Mr. C. G. M. Simkin says in *The Instability of a Dependent Economy* (Oxford University Press, 1951, p. 157) between 1882 and 1896 New Zealand's population increased by 240 per cent, the cultivated area by 1,120 per cent, the sheep flocks by 200 per cent, the cattle herds by 190 per cent, the number of factories by 300 per cent and the value of exports by 80 per cent in spite of falling export prices. This was naturally a period of heavy jute exports from India to New Zealand.

TOTAL VALUE OF EXPORTS TO NEW ZEALAND

(In £)

	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20
1. Candles ...	18,813	14,822	11,407	6,377	8,904	4,852
2. Chemicals ...	3	1,279	765	1,579	1,958	1,718
3. Coffee ...	3,158	739	1,660	3,633	520	1,860
4. Coir goods ...	3,259	646	3,076	4,318	4,016	4,257
5. Pulses ...	893	2,307	1,731	1,037	490	116
6. Lac ...	1,542	1,538	602	4,856	1,417	438
7. Manure ...	11,690	31,103	48,647	37,067	—	17,997
8. Metals and ores	1,311	8,668	14,534	14,652	—	7,281
9. Oils (castor and linseed) ...	23,042	29,488	27,294	52,557	80,357	21,239
10. Paraffin wax	13,741	13,145	22,507	41,542	14,227	14,446
11. Black tea ...	14,929	16,929	19,521	25,992	11,696	39,151
12. Jute manufactures ...	299,725	281,859	351,878	296,469	458,745	440,155
13. Woollen manufactures ...	2,036	3,034	7,843	4,657	949	17,187
Total including others ...	404,681	411,056	518,937	505,695	597,045	592,202

It will be observed that in wartime, the total value of imports from New Zealand increased considerably as the result of increasing imports of farinaceous and patent foods and canned and bottled provisions, both of which were needed in large quantities for the provisioning of armies. Although there was a drop in imports after the end of the war, part of the demand for the products of New Zealand's food industries persisted after the war and, as we shall see later, expanded considerably during the inter-war period.

The composition and value of India's exports to New Zealand during the war years and the immediate post-war years reflected not only the long-term economic development in New Zealand but also the short-period effects of the expansion of her economy in wartime. We observe the appearance of high-income consumer goods like coffee (in addition to tea), candles, coir manufactures, and woollen manufactures (coir flooring and rugs and carpets which add to the comforts of life in a cold country. Similarly, the increasing imports of lac, chemicals, oils, paraffin wax, and particularly of metals and ores, reflected a higher degree of develop-

ment of secondary production as the result of economic development.

The external trade of New Zealand rapidly developed after World War I. Until the period of the depression there was an increase in the contribution of New Zealand's pastoral industry to her export trade. The percentage of exports of pastoral products to total exports rose from 88.9 per cent in 1917 to 91.2 per cent in 1920, 93.3 per cent in 1922 and 94.2 per cent in 1925 (the peak level reached during the inter-war period) at the expense of exports of agricultural products, forest products, and mining products. Agricultural products contributed a higher percentage after 1926 owing to the appreciable development of the export trade in apples. Exports of mining products increased after 1931, due to the higher price of gold which stimulated gold production and induced exports of 'distress gold', as in the case of India.

In the post-war period, New Zealand's pastoral products fetched appreciably higher prices in the overseas markets. There is no doubt that the boom in exports induced heavy importing.[1] Between 1926 and 1929 the per-unit purchasing power of New Zealand's exports in terms of imports rose considerably. These trends are reflected in the expansion of India's trade with New Zealand. We find, as the following table indicates, a rough correspondence between the high level of New Zealand's export earnings as the result of high export prices, on the one hand, and the high level of imports from India on the other hand :

	Index Number of Export Prices of Pastoral and Dairy Products (1909-13 = 100)		Total Value of Imports from India as the Country of Origin (In £)
1917 ...	1,663	1918 ...	729,419
1918 ...	1,691	1919 ...	787,669
1919 ...	1,787	1920 ...	940,569
1920 ...	1,824	1921 ...	607,926
1924 ...	1,806	1925 ...	912,741
1925 ...	1,914	1926 ...	861,578

[1] The total value of New Zealand's exports was £55,570,381 in 1928, compared with £31,517,072 in 1917.

The following comparative tables indicate the trends of India's imports from, and exports to, New Zealand during this period. As they show the principal commodities exported and imported, they throw light not only on what we have just explained, but also on the changing commodity composition of India's trade with New Zealand.

IMPORTS FROM NEW ZEALAND TO INDIA

	1920-21 (Rs.)	1921-22 (Rs.)	1922-23 (Rs.)	1923-24 (Rs.)	1924-25 (Rs.)
Tyres ...	—	1,27,100	—	—	—
Raw wool ...	—	—	226	—	13,38,508
Total including others ...	10,540	1,40,378	13,377	13,657	13,79,070

EXPORTS FROM INDIA TO NEW ZEALAND

	1920-21 (Rs.)	1921-22 (Rs.)	1922-23 (Rs.)	1923-24 (Rs.)	1924-25 (Rs.)
Candles ...	1,35,880	36,914	56,214	63,245	43,508
Coffee ...	16,350	54,075	31,660	37,721	93,513
Coir goods ...	88,040	48,178	39,235	65,280	46,695
Cordage, rope, etc.	9,240	4,830	3,135	3,020	9,885
Pulses ...	2,260	4,765	3,190	28,300	17,081
Rice, not in husk	8,330	—	82,599	3,15,054	20,154
Lac ...	1,71,560	84,910	1,03,585	1,44,585	1,39,345
Manure ...	65,250	1,66,250	85,270	90,750	1,69,950
Metals and ores ...	350	38,666	83,648	3,06,853	2,69,703
Oils ...	4,10,590	62,706	1,01,752	1,77,933	1,04,578
Paraffin wax ...	5,42,820	4,02,997	1,03,405	90,772	2,61,374
Black tea ...	2,87,130	3,10,321	2,60,020	3,22,554	7,77,461
Kapok ...	87,850	—	10,754	4,260	1,960
Cotton piecegoods	13,130	219	—	400	—
Jute manufactures	59,89,890	38,60,657	50,28,676	66,74,191	50,96,311
Wool, carpets and rugs ...	5,56,230	49,917	92,480	88,968	27,712
Total including others ...	85,77,860	52,39,139	62,47,708	87,63,325	75,73,411

It will be observed that India's exports to New Zealand attained high levels mainly because of the high total value of exports of jute manufactures which, again, is explained by the boom in New Zealand's exports of pastoral products during the post-war period.

The value of India's jute exports (and hence the total value of all exports to which it very largely contributed) was comparatively low in 1921-22 and 1922-23, because during these years the index number of export prices of New Zealand pastoral and dairy produce was lower than in 1919, 1920, 1924, or 1925.

India's imports from New Zealand in the post-war period were insignificant, and hardly call for any comment except that after the 'twenties India began to import small quantities of raw wool off and on as the result of the growth of India's woollen textile and hosiery industries, and that a small part of the market for 'provisions' which New Zealand had gained in India in wartime, was still retained by her.

The depression was a difficult time for both India and New Zealand. Between 1930 and 1933 although the import price index fell considerably from 84 (1926 = 100) in 1930 to 78 in 1933, yet the export price index fell more sharply from 83 in 1930 to 56 in 1933. There was a favourable turn in 1934 when the purchasing power of exports in terms of imports was greater than in the three years immediately preceding. The position remained virtually static in 1935 ; but in 1936 export prices rose by nine points and were appreciably above the level of import prices. The depression thus had spent itself completely by 1936.

In 1933 New Zealand's foreign exchange rate had been lowered to a discount of 25 per cent on sterling to assist the farmers in the face of falling overseas prices. Moreover, during the depression dairying was a comparatively attractive form of farm production mainly because prices of butter fat, even at very low levels, were relatively better than prices of wool and meat. In these respects New Zealand was more fortunate than India.

The effects of the depression on the course of India's trade with New Zealand are illustrated in the following comparative tables which show the position at the tail-end of the post-war boom in New Zealand's exports (1928-29 and 1929-30), at the height of the depression (1931-32) and in 1938-39, the pre-war year which may be included in the period of recovery after the slump of the early 'thirties.

Imports from New Zealand to India

	1928-29 Rs.	1929-30 Rs.	1931-32 Rs.	1938-39 Rs.
Hides and skins ...	—	—	27,968	41,309
Provisions ...	22,399	58,896	96,414	4,76,825
Tallow and stearine	70,150	79,956	1,87,497	10,74,867
Raw wool ...	—	1,96,748	40,486	11,809
Total including others	1,04,705	3,48,925	3,60,144	16,48,090

Exports from New Zealand to India

	1928-29 Rs.	1929-30 Rs.	1931-32 Rs.	1938-39 Rs.
Coffee ...	41,517	94,403	33,008	50,464
Pulses ...	24,733	52,712	23,640	16,992
Rice, not in husk	2,10,641	1,78,634	1,34,523	1,442
Lac ...	1,19,560	1,41,964	21,584	54,358
Manure ...	61,230	1,37,500	9,600	—
Metals and ores ...	1,78,225	49,008	4,445	71,800
Oils (vegetable)	68,943	64,127	29,471	17,635
Paraffin wax ...	1,49,012	29,575	11,130	—
Seeds ...	1,98,192	—	114	15,044
Black tea ...	1,86,227	2,11,999	5,44,670	1,74,852
Piecegoods ...	1,345	41,669	11,058	24,720
Jute manufactures	71,67,145	64,02,588	24,91,973	32,88,245
Wool, carpets and rugs ...	16,538	19,496	12,757	11,506
Toys and sports goods ...	13,169	25,415	13,403	56,988
Total including others ...	87,26,847	77,63,998	34,97,679	43,17,984

India's imports from New Zealand during this decade show a strikingly rising trend irrespective of the phases of the trade cycle. The two important commodities were provisions and tallow and stearine, the imports of which increased several-fold in terms of value. The high value of imports of tallow and stearine might have been due to the favourable price parity for the New Zealand product, as compared with the Burmese product, after the separation of Burma from India. The increasing imports of provisions from New Zealand were a new trend which established itself during this decade and was accentuated during the period of the second World War and the post-war period till very recent years.

India's exports to New Zealand show a clear cyclical trend. 1928-29 was, like 1923-24, a peak year of India's exports to New Zealand. There were substantial increases in exports of

consumer goods like tea, coffee, piecegoods, and toys and sports goods (two new commodities which began to figure in exports in the 'thirties).

A factor, which played not an insignificant part in the development of trade between India and New Zealand, was the preferential tariff. In 1928 one-half of the total imports from the British empire were admitted free of duty. The excess duty payable on 'foreign goods' (from countries outside the British empire) became in general 20 per cent in 1928, as compared with 15 per cent under the 1921 tariff and 10 per cent prior to 1921. The preferential arrangement favoured Indian exports as against goods exported from countries outside the British empire in the Far East and the Pacific region with one exception : in so far as New Zealand had a special reciprocal tariff agreement with Australia (concluded in 1922) such of India's manufactured goods as could be supplied by Australia were priced out of New Zealand's market. The Ottawa preferences offered by India must also have assisted New Zealand in finding a wider market for 'provisions' and tallow and stearine, although it is difficult to say how far other factors, such as the devaluation of New Zealand's currency, were responsible for producing this result.

Let us now turn to an analysis of the trends of trade since the outbreak of the second World War. During this period India's trade with New Zealand has reached record levels in terms of value, which are not explained merely by the rise of export prices, and reflect the considerable expansion of economic activity in both countries.

India's Imports from New Zealand

	1940-41 Rs.	1943-44 Rs.	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
Raw hides and skins	—	—	—	—	—
Provisions	4,52,673	72,479	20,64,548	45,39,772	89,40,780
Tallow and stearine	8,30,104	1,68,264	—	16,91,615	—
Raw wool	1,04,82,351	25,00,911	12,38,592	24,22,271	49,51,460
Total including others	1,17,85,832	27,58,822	35,03,377	96,38,579	1,43,69,332

India's Exports to New Zealand

	1940-41 Rs.	1943-44 Rs.	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
Coffee	55,483	10,200	—	—	—
Coir manufactures	40,865	2,64,313	6,18,615	1,77,213	3,72,570
Drugs and medicines	4,059	91,218	13,024	—	2,123
Dyeing and tanning materials	48,568	58,765	42,380	9,000	53,462
Cashew kernels	33,024	87,403	2,29,154	1,45,304	3,35,439
Kapok	—	2,01,590	14,46,520	10,95,850	3,90,222
Lac	85,932	37,150	5,47,877	2,25,066	2,92,001
Metals, ores and minerals	55,316	10,842	1,350	3,483	2,102
Mica	29,444	31,475	1,06,920	11,167	7,543
Oils (vegetable)	80,565	3,11,275	11,61,102	3,23,188	4,41,017
Paraffin wax	—	3,83,761	9,43,337	9,86,445	1,69,665
Seeds	5,625	2,88,043	1,74,523	5,16,393	26,91,848
Black tea	47,594	13,17,214	33,02,798	25,70,248	22,01,160
Raw cotton	—	1,52,550	27,972	61,200	—
Cotton waste	56,164	1,64,050	4,84,639	4,97,353	8,91,359
Twist and yarn	33,784	89,077	—	—	44,463
Canvas	—	1,70,511	4,669	—	—
Piecegoods	5,58,348	25,48,053	21,69,591	23,73,059	74,18,320
Haberdashery	7,294	3,59,925	2,03,689	3,05,770	3,44,935
Jute manufactures	1,08,65,089	1,05,72,084	2,22,05,017	1,59,67,127	1,48,75,359
Wool carpets and rugs	—	11,27,974	4,76,844	419	17,970
Total including others	1,30,47,358	1,89,65,755	3,76,66,682	2,76,70,368	3,21,95,505

The large increase in imports from New Zealand was mainly due to imports of wool from New Zealand. Distant overseas markets being cut off by the war, New Zealand wool was diverted to India presumably for the manufacture of woollen goods to meet army requirements. Imports from New Zealand, however, tailed off in 1943-44, largely due to the scarcity of shipping space and the increasing risk of shipping losses. In 1943 American purchasing authorities appeared in New Zealand, and their large-scale purchases diverted New Zealand's exports to countries of the Pacific region.

The fact that New Zealand became an important supply base in which American purchasing authorities bought goods on a large scale and also the presence of American servicemen whose requirements were bought for dollars really explain the phenomenally high level of India's exports. It should be remembered that the value of New Zealand's civilian imports during the war fell to about two-thirds of the 1939 figure. Thus a considerable part of Indian exports to New Zealand in the war years was

designed to meet military requirements. Exports of jute manufactures reached a high level, and this is explained not only by the military demand for jute manufactures but also by the expansion of economic activity as part of New Zealand's war effort. Exports of cashew kernels from India in wartime are also explained by the presence of overseas troops ; but it appears that the market for cashew kernels not only did not dwindle but actually expanded in the post-war years. In respect of tea, the increase of exports to high levels in 1943-44 is again explained by an abnormal war demand; the high level of demand has been sustained even after the war, presumably due to the consolidation of the market for Indian tea as the result of a rise in New Zealand's standard of living.

The most spectacular development of India's export trade with New Zealand has been witnessed in regard to India's exports of piecegoods, mainly as the result of elimination of Japan as a supplying country. During the war, since supplies from Japan and the U.K. were either eliminated or drastically reduced, India as a nearer source of supply was in a position to step into the breach. The trade in piecegoods has not only been sustained since the war, but has actually reached progressively high levels in recent years. It should, however, be noted that New Zealand possesses a developing cotton textile industry, although it meets a small proportion of her domestic demand. Her imports of raw cotton and cotton waste from India in recent years are merely an indication of this interesting development.

After the war, New Zealand, like India, stepped up the importation of civilian consumer goods to such an extent that deficits were incurred on overseas exchange transactions up to 1949. In 1946 New Zealand's civilian imports doubled, and there was a similar increase in 1947. Rising values in New Zealand's currency of both exports and imports were a characteristic feature of New Zealand's foreign trade in the post-war period. These trends are clearly reflected in India's trade with New Zealand. Imports of coir manufactures, cashew kernels and Indian tea reached record levels. Imports of Indian wool carpets and rugs were also considerable. Amongst manufactured products, jute manufactures reached the highest level so far recorded. A similar record was established in respect of kapok, vegetable oil, paraffin wax, and cotton twist—raw materials of New Zealand's secondary industries which had stepped up their production in wartime.

Rising values in New Zealand's currency of both her exports and imports were damped down by the appreciation of the New Zealand pound to parity with sterling in August, 1948. One notices a decrease all along the line, the heaviest decline being recorded in the case of jute manufactures. The total value increased only in the case of cotton waste and piecegoods, the demand for which was proving inelastic and the market for which had been steadily expanding in New Zealand since the outbreak of the war. These were also precisely items of India's exports which have acquired an importance next only to jute and have often competed with tea for the second place of importance in India's export trade with New Zealand in recent years.

It should be noted that the appreciation of New Zealand currency did not have any restrictive effect on India's imports from New Zealand.

The uptrend in the values in New Zealand's currency of New Zealand's exports and imports was resumed in 1949-50. In 1949-50 and in subsequent years there was considerable expansion of India's trade with New Zealand. The devaluation of the sterling area currencies in relation to gold was calculated to stimulate trade within the sterling area. But the effects of devaluation were obscured by the stockpiling and rearmament boom which followed the outbreak of the Korean war. This phase may be considered now.

The most remarkable fact about India's export trade with New Zealand in 1949-50 was the increase in India's exports of cotton waste and cotton piecegoods. The increase in the total value of exports of piecegoods and cotton waste was of the order of Rs. 54,38,267. Exports of oilseeds increased by about Rs. 22 lakhs (while exports of vegetable oils were at low levels in 1949-50 and 1948-49 as compared with 1947-48). Thus the increase in exports of cotton piecegoods, cotton waste, and oilseeds—essential commodities apart from jute—was of the order of Rs. 76,39,267. Since the increase in the total value of exports of all commodities in 1949-50 was Rs. 50,45,261, naturally there were decreases under other heads including even jute manufactures and tea.

During the boom years of 1950-51 and 1951-52 India's trade with New Zealand beat all previous records as the following comparative table clearly shows :

India's Principal Imports from New Zealand

	1949-50 (Rs. Lakhs)	1950-51 (Rs. Lakhs)	1951-52 (Rs. Lakhs)
Raw wool	50	85	54
Total including others	145	166	214

India's Principal Exports to New Zealand

	1949-50 (Rs. Lakhs)	1950-51 (Rs. Lakhs)	1951-52 (Rs. Lakhs)
Coir mats and matting	3	7	22
Linseed oil	4	7	40
Paraffin wax	2	2	1
Linseed	11	13	9
Tea	22	52	31
Cotton piecegoods	74	99	63
Gunny bags	114	108	411
Gunny cloth	31	35	118
Total including others	322	367	798

Let us consider, first, the most important item of India's exports to New Zealand, viz., jute manufactures. The rising value of exports of jute manufactures in recent years is explained as much by the increased offtake as by high export prices. But the development of the multiwall paper-bag industry and flax canvas production in New Zealand is calculated to reduce the demand for gunny woolpacks. There is no doubt that the prices of jute manufactures reached their peak in 1950-51 and 1951-52.

The extension of the market for Indian cotton piecegoods in New Zealand in the post-war period has been a remarkable trend which we have already analysed. The growing market extends to all classes of textiles. Diversification of India's piecegoods exports to New Zealand is thus a notable factor. Apart from unbleached, white, and coloured and printed or dyed piecegoods, India has also been supplying miscellaneous varieties of cloth. In 1951 the 10 per cent export duty on mill-made cotton textiles exported from India as well as destinational and quantita-

tive control had the effect of restricting exports to New Zealand specially because, apart from the price factor, New Zealand was excluded from the scope of destinational export quotas. There was however, an increasing demand for handloom textiles from India, such as ladies' dress material, nursery cloth, grey sheeting, and drill for local processing and dyeing, bed-spreads, table-cloth, curtain cloth (Bihar products), towels and bath mats, and table napkins and tea napkins.

It was very likely that after the conclusion of the Japanese treaty there would be diversion of demand from Indian to Japanese textiles. In fact, in March, 1952, the 25 per cent export duty made Indian goods uncompetitive, and f.o.b. prices of Indian goods were higher than those of Japanese goods, although New Zealand's import duty on grey calico (one of the largest items of imports) was 3 per cent on Indian goods and 25 per cent plus 9/40th surtax on Japanese goods. The position has, since then, been retrieved to some extent as the result of the lowering of the export duty on Indian cotton textiles.

Such details of India's export trade with New Zealand as are available at the time of writing show that, apart from the traditional exports—mill-made cotton and jute textiles accounting for 80 to 90 per cent of the trade in the past—new categories of goods, particularly products of Indian cottage industries, have recently figured in the export trade with New Zealand. Mention has already been made of certain classes of handloom textiles recently exported from India. Other categories have been hand-made laces, canned fruits, cordials, curries, prawns and fish, Moradabad brassware, curios, ivory and horn carvings, tableware, linoleum for floor covering, and jute carpets, the demand for all of which may easily increase as the result of New Zealand's increasing economic prosperity. House construction for immigrants in New Zealand has also given rise to the demand for construction materials of all kinds, and India has been exporting builder's hardware (locks, latches, door necks, handles) plywood sheets, and even tiles and ridges. In 1951 even commodities like rubber goods, electric motors, centrifugal pumps, torch batteries and torch cases were introduced in the New Zealand market. But it is doubtful whether Indian exports in such lines will have a chance of establishing themselves in the face of Japanese competition in the near future.

CHAPTER 11

AUSTRALIA

INDIA'S trade with Australia reflects the character of trade of those dependent economies which have been passing through a phase of development of secondary production, but in which primary production still plays a dominant role and sets the pace of economic activity. Broadly speaking, what we have said about New Zealand's trade with India also applies to Australia's trade with India. Although the foreign trade of both Australia and India are strongly oriented towards highly industrialised countries, they have discovered expanding opportunities of mutually advantageous trade between them.

India and Australia have much better opportunities of diversifying their economies by means of secondary production. In both countries secondary industries (both light and heavy) have been going through the process of naturalising themselves under the stimulus of bounties and tariff protection. This has raised difficult problems of adaptation and sound growth. Both Australia and India (particularly after partition) have a big stake in an expanding export trade. In the case of Australia, exports have normally to exceed imports to meet substantial interest and dividend payments and amortization on foreign capital. In the past, successive annual advances of amounts sufficient to meet current interest and dividend payments somehow enabled Australia to face her export problem. But high yields on foreign capital invested in Australia's secondary (as well as primary) industries marked the inherent instability of the Australian economy till the depression of the 'thirties brought with it not only an economic crisis, but also a healthy shaking down of the economy to more rational levels of costs and prices. There has been no tendency since then to slur over the difficulty presented by stagnant or declining export trade. In India, the course of economic development has been somewhat different. After the partition, however, India's export trade acquired a vital significance as a means of purchasing food, essential raw materials (jute and cotton) and basic capital goods for industrial and agricultural development.

Before we begin our survey of the development of India's trade with Australia during the present century it would not be out of place to point out that modern economic development in Australia, as in India, really began after 1850, and that the main stages of development show an interesting parallelism. In Australia, after the hectic gold rush and overborrowing to sustain a high level of economic activity there was a crash precipitated by drought and falling prices. By the end of 1893 the crisis had worked itself out, but the depression remained. Hectic development yielded place to slow progress. Railways and irrigation were developed during the second half of the nineteenth century. Wheat lands became more accessible, wheat farming technique improved. Rural settlement was encouraged by financial reforms. Thus the area under wheat in New South Wales doubled between 1894 and 1899. Towards the end of the last century, refrigeration made possible exports of dairy produce. Federation brought customs unity, and Australia's secondary industry found itself in a position to expand on a profitable basis after 1900. In India also, after 1850 there was considerable expansion of irrigation; and railway development opened up the country to free trade on the basis of commercialised agriculture. The stimulus of pioneering and colonisation and gold rush was lacking, and there was no overborrowing to sustain economic activity. But by the turn of the century India had developed a considerable volume of export trade which was absolutely large, though small per head of the population.

India's trade with Australia in the early years of the present century was small in total value and was restricted to a small range of commodities as shown in the following table:

IMPORTS FROM AUSTRALIA INTO INDIA

		1902-03 Rs.
1. Living animals (mainly horses)	...	30,07,853
2. Grain and pulses	...	7,382
3. Liquors	...	21,747
4. Provisions	...	1,57,975

		1902-3 Rs.
5. Metals (mainly unwrought copper)	...	6,31,179
6. Railway plant and rolling stock	...	2,39,203
7. Fodder, bran and cattlefood	...	1,15,270
8. Wood	...	68,052
9. Wool	...	2,86,371
10. Leather	...	44,637
Total including others	...	47,61,947

Exports from India to Australia

		1902-03 Rs.
1. Coffee	...	2,93,496
2. Grain and pulses	...	4,85,520
3. Provisions	...	1,63,975
4. Tea	...	16,36,505
5. Chemicals	...	24,639
6. Drugs and medicines	...	50,526
7. Dyeing and tanning materials	...	14,935
8. Oils (mainly castor oil)	...	8,67,928
9. Cotton	...	1,54,666
10. Jute	...	32,403
11. Manures	...	2,16,687
12. Seeds	...	55,079
13. Cotton manufactures	...	24,983
14. Jute manufactures	...	64,75,547
15. Lac	...	86,574
16. Others	...	2,00,614
Total including others	...	1,10,16,475

By far the most important item of India's imports from Australia in 1902-03 was 'living animals', mainly horses imported for the Indian army. It is interesting to note that while India imported from Australia grain and pulses of the value of merely Rs. 7,382, she exported to her grain and pulses of the value of Rs. 4,85,520. The position has been completely reversed in recent decades with India entering the ranks of food-deficit countries after the separation of Burma and the partition of the country. The only two manufactured products imported from Australia involving small total values in 1902-03 were liquors and leather. In the second half of the last century the influx of population into Australia after the decline of gold diggings and the fall of wages had

encouraged a few manufactures—farm implement factories, breweries, tanneries, saw-mills and brickyards—particularly in Victoria. The growth of breweries and tanneries explains the importation of liquors and leather.

The first decade of the present century was the peak period of Australia's mineral production and exports, and Australia's exports of both coal and unwrought copper to India reached high levels during this decade. 'Railway plant and rolling stock' is a somewhat misleading description for wooden sleepers for railways which India used to import from Australia until comparatively recent times, prior to the development of India's own saw-milling industry. Saw-mills had come into existence in Australia after the decline of gold diggings in the latter half of the nineteenth century. Imports of 'provisions' from Australia before the first World War included jams and jellies, canned and bottled provisions, biscuits, condensed milk, and bacon and hams. In these lines Australia's main competitor in India was the United Kingdom.

In the list of exports, important commodities in the order of importance in 1902-3 were (1) jute manufactures, (2) tea, (3) oils, (4) grain and pulses, (5) coffee, and (6) manures, which accounted for about Rs. 1 crore out of the total exports of about Rs. 1 crore and 10 lakhs. As in the case of New Zealand, consumption of tea and coffee in appreciable quantities was characteristic of the high standard of living in Australia. Latterly, Ceylon tea has competed favourably with Indian tea owing to the convenient situation of Colombo as a port of call on the east-west sea routes.[1] The importance of jute manufactures arose from the demand for hessian and cornsacks and woolpacks. The development of bulk handling of wheat in Australia was thought at one time to be a factor which would eventually limit India's exports of jute manufactures. But subsequent events have not confirmed this possible trend.[2]

India has always been an important source of supply of oils (mainly castor oil) for Australia. It is interesting to note that

[1] Much later Indonesian tea virtually captured the Australian market.

[2] It is extremely doubtful if, in view of the initial cost of silos, the wide fluctuations in outturn, and the economic way in which bagged grain can be handled by the farmer and transport authorities in the circumstances of the Australian climate, bulk handling can be successful.

the two other important items of export in 1902-3 were, as in the case of New Zealand, manures and grain and pulses. Indian oilcakes had a good market in an agricultural and pastoral economy. But by the year 1913-14 exports of manure from India to Australia ceased altogether. In the category of grain and pulses the only item that was exported to Australia was rice not in the husk which was needed for human consumption and was also consumed in Australia's breweries.[1] India's exports under this head virtually ceased after the separation of Burma.

On the whole, by the year 1913-14 India's trade with Australia was restricted to a narrow range of products. Taking India's total trade, 67 per cent was with Europe, 21 per cent with Asia, 8 per cent with America, 3 per cent with Africa and only 1 per cent with Australia. Imports from Australasia were trifling, while exports to Australasia accounted for 2 per cent of the total. The market in India of products of Australia's pastoral and dairying industries was naturally limited. They were not adapted to the food habits of the masses of the Indian population and were also what are called 'high-income goods' consumed in the richer industrial countries of the temperate belt. Moreover, continental products were sold at prices at which Australia could not compete in the limited market that was available.

It was the first World War which presented an opportunity for the development of closer trade relations between India and Australia. The difficulty and shortage of shipping was no doubt a limiting factor. But this very factor which restricted the trade of India and Australia with the European continent should have been responsible for diverting part of the trade to Asia and to each other. India's strategic position as a military and supply base should also have been responsible for this possible diversion of trade.

[1] Recent shortages of rice have stimulated rice cultivation in Australia (mainly New South Wales). In 1948-49 Australia's exports of rice were valued at £ A 1,247,000.

Imports from Australia to India

	1913-14	1914-15	1915-16	1916-17	1917-18
1. Living animals (mainly horses)	160,871	270,467	249,817	385,575	279,612
2. Grain and pulses	16,049	7,709	2,161	56	27,651
3. Coal	50,653	36,286	25,489	37,943	11,983
4. Liquors	1,204	806	1,070	1,171	3,027
5. Machinery and millwork	11,700	4,774	5,486	1,737	2,081
6. Metals	13,970	649	154	63	571
7. Provisions	26,797	26,621	33,034	101,260	183,488
8. Railway plant and rolling stock	194,820	98,677	6,976	—	—
9. Tallow and stearine	14,613	18,087	18,854	10,260	8,133
10. Fodder, bran and cattlefood	15,076	12,370	10,190	17,938	15,672
11. Wood (timber)	46,651	44,422	20,603	33	21
12. Wool	27,625	16,067	31,148	35,545	1,333
Total including others	6,11,023	5,67,098	4,46,982	6,47,698	5,95,762

Exports from India to Australia

	1913-14	1914-15	1915-16	1916-17	1917-18
1. Coffee	26,088	52,188	48,321	40,898	28,564
2. Grain and pulses	129,292	1,59,768	268,900	104,113	281,091
3. Provisions	11,146	11,326	14,513	12,764	7,510
4. Tea	315,892	351,830	335,532	163,592	325,893
5. Chemicals	718	1,912	2,874	4,623	10,147
6. Drugs and medicines	—	—	—	—	—
7. Dyeing and tanning materials	3,672	17,867	14,522	10,427	12,932
8. Oils (mainly castor oil)	35,922	30,897	30,706	21,466	53,015
9. Cotton	12,445	7,645	3,095	392	18,735
10. Jute	12,396	5,093	13,836	17,236	9,878
11. Manures	—	—	—	—	—
12. Seeds	38,257	41,950	75,211	130,626	150,718
13. Cotton manufactures	1,495	1,089	1,392	6,883	16,374
14. Jute manufactures	1985,752	1767,744	1951,340	2499,636	2387,013
15. Lac	6,407	9,802	6,990	4,009	23,638
16. Coir manufactures*	5,879	14,099	14,761	5,573	19,100
17. Raw skins*	12,386	18,738	23,110	63,184	170,238
18. Iron or steel*	37,797	49,684	64,730	60,591	14,802
19. Paraffin wax*	52,472	41,803	46,460	33,729	78,776
20. Woollen manufactures* (mainly carpets and rugs)	4,847	3,433	5,758	12,024	11,089
Total including others	2,728,533	2,625,389	2,967,685	3,219,228	3,661,742

A glance at the tables given above, however, does not give an impression of a sustained increase in the level of imports from Australia through the war years, although the year 1916-17 was definitely a year of peak imports. On the other hand, the

* New commodities figuring after 1902-3.

increase in the total value of India's exports to Australia during these years was generally sustained, if we except the year 1914-15, and the rate of increase was also fairly high.

Let us observe the trend of imports from Australia in somewhat greater detail. It appears that Australia's exports to India during the war years generally followed the same trend as her exports to all countries.

	Value of Australia's exports to all countries. (£ 1000)		Value of Australia's exports to India. (£)
1913-14	78,572	1913-14	611,023
1914-15	60,593	1914-15	567,098
1915-16	74,778	1915-16	446,982
1916-17	97,955	1916-17	647,698
1917-18	81,429	1917-18	595,762

With the exception of the fact that the lowest point in exports to all countries was reached in 1914-15, and in exports to India in 1915-16, the ups and downs otherwise correspond in both cases, and the peak year was also the same, viz., 1916-17.

Even a cursory inspection of the import figures reveals the interesting fact that in wartime the three commodities of major importance imported from Australia were living animals (mainly horses), provisions, and railway sleepers. In 1913-14 they accounted for 62 per cent of the total value of imports from Australia. The percentage rose to 70 in 1914-15, and was 75 in 1915-16 and 1916-17, rising again to 77 in 1917-18. This trend is explained by the exigencies of the war. There was an increase in the demand for horses for the army. The demand seems to have had ups and downs in alternate years, but the trend was generally upward. The increase in imports of provisions is also explained by the abnormal demand for army provisions. Imports of biscuits increased by 55 per cent in wartime. Australia's share in India's imports of jams and jellies rose from 22 per cent in the pre-war quinquennium to 33 per cent in 1916-17. In 1918-19 Australia increased her supplies of bacon and ham, jams and jellies, condensed milk, and butter, although there was a decrease in biscuits, cakes, and cheese. 83 per cent of imports of jams and jellies in 1918-19 was from Australia, as against the pre-war normal of only 2 per cent. The U.K's share was 10 per cent as against 97 per cent before the

war. The extension of the market for Australia's 'provisions' in wartime, as we shall see, was not only a permanent gain, but also eventually proved to be a long-period trend in later years. It will be noticed that Australia's supply of wooden sleepers for railways which was fairly large in 1913-14 decreased in the first two war years and disappeared completely in 1916-17 which was otherwise a peak year in respect of imports from Australia. This must be set down to the scarcity of shipping space in wartime, for, as we shall see, imports of wooden sleepers from Australia were resumed on a large scale after the war.

A few comments may be made on the decline in certain other items of imports from Australia during the years of the first World War. The decline in imports of bulky commodities like coal and timber may be explained by high freights and shortage of shipping.[1] Imports of grain and pulses which were normally small declined still further in wartime owing presumably to shipping shortages, unfavourable seasons, and wartime difficulties in Australia, which brought down the wheat acreage from 12.5 million acres in 1915-16 to 6.4 million acres in 1919-20. Under the head of 'metals' there was a sharp decline in war years. When the war began Holland, Sweden, Italy, and Switzerland brought into force embargoes on exports of copper. There was consequent shortage of copper, and India's imports from Australia of unwrought copper (in tiles, ingots, bricks and slabs) dwindled considerably in wartime. Imports of liquor from Australia declined because of the general decline in the liquor trade owing to the difficulty of getting outward freight, absence of a large portion of the British army from India, and the shortage of light German beer.

Let us analyse the trend of India's exports to Australia during the period of the first World War with special reference to the commodity composition of trade. As already said, if we leave out the year 1914-15, there was a progressive increase in the total value of exports during the war years. Part of this increase can be explained by the inflationary rise of prices. But there is no doubt that Australia was absorbing increasing quantities of India's staple products. By far the most important staple was jute manu-

[1] The value of coal production in Australia was 158 in 1918 relatively to 100 in 1910-14. Exports of timber were .96 per cent of the domestic output in 1923-24, as against 1.48 in 1904-8. There was thus a decline of Australia's export potential in regard to timber, but not in regard to coal.

factures, the demand for which is not only fairly inelastic, but also usually fluctuates according to the state of economic activity in a country like Australia. Australia's population increased by 507,000 persons between 1913 and 1918. In spite of, and perhaps because of, wartime inflation, economic activity was at a higher level and was clearly reflected in the increase in the total value of India's exports of jute manufactures. Other commodities taken together also increased in relative importance in the war years. The most important commodity exported, next to jute manufactures, was tea. Attention may also be drawn to cotton manufactures, the exports of which increased very appreciably[1] —a trend which repeated itself in a phenomenal manner during the second World War owing to the elimination of the U.K. and Japan as suppliers of cotton textiles; and reference may be made to coir manufactures and woollen manufactures (largely carpets and rugs) for floor covering, which increase the comforts of life in a cold country, and the demand for which is an indication of a high standard of living.[2] In the case of carpets and rugs, imports from the U.K., the principal supplier, were replaced by imports from India.

After 1908 manufacture of leatherware became more important than processing of leather in Australia's tanneries, and Australia became an importer of raw skins from India. India's exports of pig iron are explained by the growth of the Indian iron and steel industry in wartime. In 1915 India's output of iron and steel was sufficient not only to supply the existing requirements of India but also to leave a fairly large surplus available for the market of Australia and the Far East where the Indian brands were beginning to become familiar and command favourable prices. But the iron and steel works at Newcastle which went into production in 1915 began to replace imports fom India to a certain extent, and the Australian Iron and Steel Company's new works at Port Kembla, which started production in 1928, contributed to the progress made towards meeting Australia's domestic needs of iron and steel.[3]

[1] This was due to the development of the Indian cotton textile industry during the first World War.

[2] These consumer goods did not figure in India's exports in 1902-3. Carpets and shawls were also imported by land from Afghanistan and Tibet and re-exported from India to Australia.

[3] The limited size of the Australian market was a handicap for the modern units of production which were set up in Australia.

The end of the first World War left in both India and Australia an aftermath of inflation mitigated somewhat by a certain degree of development of secondary production. The abolition of war-time restrictions on foreign trade was followed by a trade boom generated by the backlog of demand for goods for civilian consumption. The following tables show the boom in imports and exports separately and in the total trade of India with Australia. It will be observed that the peak of the boom in imports was reached in 1921-22, while that in exports in 1924-25. The year 1921-22 was also a year of maximum total trade.

POST-WAR BOOM

Imports from Australia to India.		1921-22 (year of maximum imports and maximum total trade) Rs.	1924-25 (year of maximum exports) Rs.
1. Living animals (mainly horses)		6,18,230	
2. Grain and pulses	...	8,32,91,227	
3. Coal	...	28,81,690	
4. Liquors	...	79,200	
5. Machinery & millwork	...	83,269	
6. Metals	...	32,162	
7. Provisions	...	21,16,330	
8. Railway plant and rolling stock	...	20,55,348	
9. Tallow and stearine	...	10,22,656	
10. Fodder, bran and cattlefood	...	78,227	
11. Wood (timber)	...	3,63,143	
12. Wool	...	5,25,889	
13. Implements	...	1,47,973	
14. Leather	...	1,30,441	
15. Rubber manufactures	...	1,72,962	
16. Soap	...	26,834	
Total including others	...	9,43,94,275	
Exports from India to Australia.			
1. Coffee	...	5,99,883	6,82,052
2. Grain and pulses	...	22,73,189	42,91,998
3. Provisions	...	1,72,618	1,89,240
4. Tea	...	32,34,529	34,52,216
5. Chemicals	...	21,498	35,799
6. Dyeing and tanning materials	...	1,65,286	1,23,648
7. Oils	...	67,094	1,48,697
8. Cotton	...	82,050	6,02,327
9. Jute	...	94,390	3,45,697
10. Seeds	...	28.09,956	44,17,679
11. Cotton manufactures	...	1,07,780	38,071

Exports from India to Australia		1921-22 (year of maximum imports and maximum total trade)	1924-25 (year of maximum exports)
		Rs.	Rs.
12. Jute manufactures	...	2,72,44,921	5,38,38,466
13. Lac	...	5,31,564	7,88,591
14. Coir manufactures	...	4,15,578	1,79,390
15. Raw skins	...	10,99,128	6,87,429
16. Iron or steel	...	3,750	13,287
17. Paraffin wax	...	5,45,630	4,03,377
18. Woollen manufactures (mainly carpets and rugs)	...	1,33,597	1,51,295
Total including others	...	4,01,29,942	7,12,68,605

It will be noticed that after the first World War although wooden sleepers for railways and provisions continued to be important commodities imported from Australia, yet their importance was overshadowed by that of grain and pulses. If we consider the exports of grain and pulses from India to Australia in 1921-22 we find, no doubt, a balance of exports in favour of India. But the abnormally large imports of grain and pulses from Australia in this year is explained by the unprecedented import of wheat from Australia (and the U.S.A.) to make good the shortage of Indian wheat due to the failure of the monsoon as the result of which there was an embargo on wheat exports from India and imports on government and private account were stimulated.[1]

Even a cursory inspection of the table reveals that imports of wheat formed as much as 88 per cent of the total value of imports from Australia. Obviously, the apparent boom in imports from Australia was the consequence of the abnormal shortage of wheat supplies in India. Otherwise in 1921-22 large stocks, falling purchasing power, falling prices, and instability of exchanges were a drag on international trade all the world over.

As already said, the boom in exports to Australia reached its peak in 1924-25. Australia had emerged from the war with a bad legacy of inflation, a large war debt and considerable loss of man-power. Under the Empire Settlement Act of 1922 a scheme of assisted immigration of white settlers on the basis of

[1] Imports from Australia were 400,000 tons valued at Rs. 8⅝ crores. Total imports of grain and pulses were valued at Rs. 9.35 lakhs in 1921-22, as against the maximum previous record of Rs. 3·09 lakhs in 1919-20 and Rs. 5 lakhs in 1920 21.

a British Government loan was adopted and, between 1921 and 1929, 323,000 immigrants (including 212,000 assisted immigrants) arrived in Australia. Economic development once more proceeded apace on the basis of both internal and external borrowings. There was considerable extension of railways and irrigation. In spite of the fact that prices of primary products had a sagging tendency there was considerable expansion of wheat acreage and of the number of sheep and herds. Boom conditions which were thus created stimulated the increase of output in dairying, sugar production and fruit growing. Markets were sustained for sugar, dried fruits and butter by a combination of import duties and export subsidies. The position was too artificial to withstand the first shock of the depression. But while it lasted imports into Australia were booming, especially because part of the import surplus could once again be financed by external borrowings. It seems, therefore, that the boom in India's imports from Australia in 1921-22 stood on a par with the boom in India's exports to Australia in 1924-25, so far as the fundamental economic maladjustment underlying these trends was concerned.

In 1924-25 India's principal exports to Australia in the order of importance, as judged by total values, were (1) jute manufactures, (2) seeds, (3) grain and pulses, (4) tea, (5) lac, (6) raw skins and (7) coffee which, on the whole, accounted for as much as 95 per cent of the total value of exports to Australia. With the exception of raw skins, there was an increase in total value in every one of these lines. The increase is explained by the rise of prices in some cases and an increase in volume in others Exports of gunny bags decreased in number but increased in value. Australian demand was concentrated on Indian linseed, and Australia actually took more in spite of higher prices which were sustained by the increase in the U.S. demand for linseed oil for the manufacture of linoleum and oilcloth after the war. India's share in Australia's imports of tea went down, but the total value of India's tea exports to Australia increased appreciably. Likewise, in the case of coffee it was the rise of price, rather than the increase in quantity, which brought about an increase in the total value exported. The considerable increase in the total values of exports of raw cotton and raw jute indicated the development of the processing of these raw materials which had occurred

earlier and was stimulated in wartime. The increasing consumption of castor seeds imported from India, merely kept pace with increasing consumption of oils (mainly castor oil). While exports of woollen carpets and rugs increased in value because of the comparative inelasticity of the limited demand in the face of higher prices, the same could not be said of coir manufactures purchased by consumers of moderate means.

The depression following the post-war boom struck both India and Australia—mainly exporters of primary products with large overseas debts—with devastating effects. In Australia, as we have said, heavy imports in the post-war years were being maintained at a level far higher than was justified by the country's current earnings from its own productive effort. The interest payable overseas amounted to about £36,000,000 annually, and Australia needed an export surplus of that amount, unless equilibrium in the balance of payments was preserved by fresh foreign borrowings. India too faced a similar problem. When the export trade of both India and Australia was hit by the collapse of overseas demand and falling prices, equilibrum in the balance of payments was precariously maintained in both countries through reduction of imports and/or heavy gold shipments, especially because foreign lending had suddenly ceased. In Australia imports were reduced by currency depreciation, prohibitions, higher import duties and surcharges, rationing of imports, and, above all, by the reduced purchasing power of the consumers. The British Government in India did not fight the depression by positive measures and left things to adjust themselves through the deflationary contraction of demand and heavy exports of what was called 'distress gold'. The situation outlined above could not but lead to a drastic reduction of the trade between India and Australia. The following tables show the violent shift in the value of trade in 1931-32, as compared with 1928-29.

Depression

Imports from Australia to India.		1928-29	1932-33
		(Rs.)	(Rs.)
1. Living animals (mainly horses)	...	19,89,650	4,96,500
2. Grain and pulses	...	4,82,67,966	33,13,125
3. Coal	...	26,930	61,600
4. Liquors	...	37,423	36,769
5. Machinery and millwork	...	20,582	27,493
6. Metals	...	1,67,966	7,94,467
7. Provisions	...	8,99,948	18,27,666
8. Tallow and stearine	...	17,63,191	19,86,270
9. Fodder, bran and cattlefood	...	1,46,456	1,20,588
10. Wood (timber)	...	5,55,730	1,04,575
11. Wool	...	17,40,601	18,10,348
12. Implements	...	12,251	8
13. Leather	...	14,254	8,534
14. Rubber manufactures	...	—	—
15. Soap	...	1,01,539	38,464
Total including others	...	8,45,55,088	1,06,85,266

Exports from India to Australia.		1928-29	1932-33
		(Rs.)	(Rs.)
1. Coffee	...	4,79.322	3,40,162
2. Grain and pulses	...	13,02,782	5,04,676
3. Provisions	...	1,76,107	1,25,231
4. Tea	...	35,55,434	8,01,160
5. Chemicals	...	16,165	7,158
6. Dyeing and tanning materials	...	1,33,382	1,32,212
7. Oils (mainly castor oil)	...	38,728	21,083
8. Cotton	...	2,54,128	3,95,128
9. Jute	...	2,19,961	2,83,749
10. Manures	...	—	—
11. Seeds	...	—	—
12. Cotton manufactures	...	58,048	20,340
13. Jute manufactures	...	5,92,02,824	3,32,65,921
14. Lac	...	8,33,882	1,91,696
15. Coir manufactures	...	44,229	1,325
16. Raw skins	...	10,33,527	9,03,101
17. Iron or steel	...	—	—
18. Paraffin wax	...	4,33,612	1,46,580
19. Woollen manufactures (mainly carpets and rugs)	...	99,505	73,324
Total including others	...	7,37,63,036	3,88,40,570

The total value of India's imports from Australia declined by as much as 87 per cent. About 47 per cent of the fall was accounted for by the fall in the total value of Australian wheat imported into India. The price of wheat had declined in Australia from 5s. a bushel in 1928 to 2s.-6d. a bushel in 1931 — an

entirely unremunerative price. The wheat acreage declined, although the situation was partly met by government subsidy. Wheat-growers in India were in a similar plight. The situation, therefore, warranted a drastic fall of wheat imports from Australia. In India there was a certain degree of industrial development during the depression. It is highly probable that the increase in the total value of imports of certain industrial raw materials from Australia was due to this particular cause.

It will be noticed that the total value of India's exports to Australia in 1928-29 was higher than in the peak year of 1921-22. The post-war boom was sustained longer in Australia and was perhaps intensified by the time that there was an onset of the depression. The decline in the total value of Australia's imports was, therefore, much more violent, viz., as much as about 47 per cent. In 1931-32 — the worst years of depression from the point of view of Australia's import trade as a whole — Australia's total imports were only about 31 per cent of the total for 1928-29. Australia could not do without a certain amount of imports of jute manufactures in spite of the depression. Otherwise, there was a drastic reduction in Australia's imports, particularly of consumer goods. In this connection the reduction of tea imports was a significant trend, although diversion of demand to cheaper sources of supply was also a factor of major importance. Exports of coir manufactures to Australia dwindled almost to insignificance. Exports of carpets and rugs also declined considerably.

The period of economic recovery between 1933 and the outbreak of the second World War in 1939 was not, paradoxically enough, characterised by a commensurate recovery of Indo-Australian trade. In both India and Australia this period witnessed marked expansion of manufactures. In the case of Australia, imports from all countries remained at an appreciably lower level than before. Australia's export earnings, with which current imports had to be financed in the absence of overseas borrowings, were low due to low export prices. Consequently, imports were kept low, and the production of manufactured goods, hitherto imported, expanded at a remarkably rapid pace. In fact between 1929 and 1937 the volume of manufactures increased by more

than 40 per cent. The pastoral and agricultural sectors of the economy as well as mining did not, however, recover from the depression. Producers of sugar, butter, wool, and wheat received special assistance from the State, while mining was thrown back on its own resources and remained generally depressed owing to low mineral prices. The course of events in India was broadly similar. Tariff protection granted to certain industries stimulated industrial development and made for national self-sufficiency in a few basic consumer goods industries as well as the iron and steel industry. But agriculture was in a state of depression.

The analysis given above helps us to understand the trends of Indo-Australian trade with the help of trade statistics for 1935-36 and 1938-39 respectively which are given below.

Imports from Australia to India

		1935-36	1938-39
		Rs.	Rs.
1. Living animals	...	14,83,103	20,73,889
2. Grain and pulses	...	10,41,980	1,10,73,494
3. Coal	...	1,04,058	—
4. Liquors	...	67,377	58,944
5. Machinery and millwork	...	2,31,340	28,227
6. Metals	...	27,55,875	36,95,147
7. Provisions[1]	...	12,43,827	13,33,928
8. Railway plant	...	—	—
9. Tallow and stearine	...	21,78,532	15,92,603
10. Fodder, bran and cattlefood	...	91,701	37,813
11. Wood and timber	...	55,431	26,760
12. Wool	...	27,41,459	35,53,607
13. Instruments	...	26,023	38,640
14. Leather	...	9,335	5,324
15. Rubber manufactures	...	20,789	372
16. Soap	...	11,402	10,970
17. Fruits and vegetables	...	1,09,531	2,62,106
Total including others	...	1,25,30,888	2,41,27,668

Exports from India to Australia

		1935-36	1938-39
		Rs.	Rs.
1. Coffee	...	2,79,232	2,12,299
2. Grain and pulses	...	3,35,884	51,846
3. Provisions	...	83,454	1,10,465
4. Tea	...	9,52,616	9,22,043

[1] Canned and bottled provisions, canned cheese, farinaceous and patent food.

		1935-36 Rs.	1938-39 Rs.
5. Chemicals	...	9,801	11,733
6. Dyeing and tanning materials	...	2,31,126	1,29,755
7. Oils (mainly castor oil)	...	18,961	42,620
8. Cotton	...	3,98,926	11,49,383
9. Jute	...	3,14,516	4,34,913
10. Manures	...	—	—
11. Seeds	...	17,04,302	29,48,908
12. Cotton manufactures	...	11,812	4,37,508
13. Jute manufactures	...	2,19,48,794	2,00,37,434
14. Lac	...	2,90,933	1,63,929
15. Coir manufactures	...	83,625	3,72,776
16. Raw skins	...	1,01,718	614
17. Iron or steel	...	18,497	11,137
18. Paraffin wax	...	2,12,030	—
19. Woollen manufactures	...	1,55,888	1,17,668
Total including others	...	2,86,83,103	2,97,29,803

An interesting point which one should not overlook is that the increase of Rs. 116 lakhs in the total value of India's imports from Australia in 1938-39, as compared with 1935-36, is explained to the extent of about Rs. 100 lakhs by the increase in imports of wheat, the rest being accounted for by an increase in imports of essential raw materials of industries.

An important explanation of the comparatively restricted market for certain Australian manufactured products in India after 1932 was the absence of a trade agreement between India and Australia. As a result of the Ottawa Agreement certain preferences had been given to British colonies and to the United Kingdom and consequently goods imported from Australia to India were accorded no preferences whatever and were placed on an equal footing with goods imported from foreign countries. The United Kingdom enjoyed in respect of certain competitive goods a tariff advantage of 10 per cent *ad valorem*, so that Australian exports found it difficult to compete with similar goods imported from the U.K. Commodities in respect of which the Australian trade with India was adversely affected in this way were condensed or preserved milk, including milk and cream, confectionery, canned and bottled provisions not including tinned fish, ale and beer, toilet soap, furniture and cabinets, and certain products of the newly established Australian steel industry.

An idea of the relative importance of the Indian market in Australia for various types of goods can be formed from the table

given below which indicates India's percentage share in the total imports of each commodity in the year 1934-35.

Commodity	Percentage share
1. Isinglass	60
2. Coffee and chicory	21
3. Grain and pulses	12
4. Other unprepared grain and pulses	29
5. Rice	66
6. Other spices	2
7. Tea	3
8. Goatskins	83
9. Curry powder	91
10. Unmanufactured coir	91
11. Raw cotton	49
12. Hemp fibre	.01
13. Jute fibre	99
14. Other unmanufactured fibre	11
15. Rosin	4
16. Shellac	91
17. Linseed	62
18. Tanning materials	26
19. Carpets and rugs	1
20. Cosies, cushions, etc.	2
21. Coir mats and matting	99
22. Hessians, brattice cloth and jute piecegoods	80
23. Saddler's webs and upholsterer's webs	45
24. Bags and sacks for bran, chaff and fodder	99
25. Bags and sacks for corn and flour	100
26. Bags and sacks for gunny, potato, onion and coal	100
27. Bags and sacks for ore	86
28. Secondhand sacks	93
29. Jute woolpacks	100
30. Coir yarns	70
31. Castor seeds	21
32. Paraffin wax	20
33. Rough tanned goatskins	70
34. Other leather	13
35. Timber	2
36. Cameos and precious stones	31
37. Sandalwood oil	6

Reduction of duties on a reciprocal basis as the result of a trade agreement would have extended the Indian market in Australia for certain goods in the 'thirties. It must be noted that India did not enjoy any preference in respect of coffee and grain and pulses, including rice. Owing to British preference for empire tea, Java was getting 2d. per lb. less in London. As a result Java could accept 2d. per lb. less in other markets and Australia was buying tea from Java at a price which was about 2d. per lb. less than the price quoted in either India or Ceylon. The Indian tea was thus almost priced out of the Australian market. In resins and turpentines India was the main source of production in the British empire.

But the primage duty on these products put India on the same footing as the U.S.A. which was India's principal competitor. Goatskins were exported to Australia principally from Madras. Dyeing had to be done at the same time as tanning in India, so that the Australian importer got the skin in the form in which it could be processed further. But whereas there was only a 10 per cent primage duty on skin not dyed in India, the duty on dyed skins from India was 31¼ per cent *ad valorem* plus 10 per cent primage. These difficulties could have been removed by a reciprocal trade agreement designed to develop Indo-Australian trade.

The second World War opened up a new chapter in the history of India's trade relations with Australia. The economies of both countries, geared as they were to the supreme effort of winning a total war, showed unsuspected possibilities of expansion, although in Australia these possibilities were realized to a much greater extent than in India for reasons into which we need not go in the present context. What should interest us more in the context of trade is the remarkable expansion of trade between the two countries as the result of the peculiar combination of unforeseen circumstances.

As Mr. Ronald Walker says in *The Australian Economy in War and Reconstruction*, in 1914-18 "Australia's principal effort was in the field of small arms, explosives, clothing and related supplies . . . Except for the manufacture of uniforms and boots and the development of iron and steel production, the calls made on private industry for war requirements were not very great.[1]" The conditions of the first World War "gave a stimulus to Australian mechanical ingenuity ; and the shortage of many imported goods encouraged experiments in new local production." During the inter-war period the wartime gains in industrial development were consolidated mainly through the instrumentality of protection, and the late 'thirties, as we have shown, witnessed further expansion and diversification of manufacturing industries. The remarks made by Mr. Walker about Australia apply almost fully to India, although considering the size of the population the degree of

[1] *Walker, The Australian Economy in War and Reconstruction*, Ch. VI., pp.133-137.

industrial development was much greater in Australia than in India. Both countries were, therefore, poised for making a much greater contribution to the war effort in the second World War than in the first.

As Mr. Walker rightly says, "wartime trade was seen primarily as a method of producing goods through importation, rather than as an opportunity to dispose of surpluses ; and the main factors limiting the size of the import trade became the availability of supplies and the shipping position."[1] The net effect of the integrated planning of the international trade of what was called the 'eastern group' was a marked redistribution of exports of these countries. Since both India and Australia were important supply bases of the United Nations there was naturally a tremendous increase in the volume and value of trade between these two countries at the expense of their trade with the United Kingdom. The following tables relating to shifts in Australia's exports and imports would be found interesting.

	Destination of Australia's exports.[2] Percentage change : 1943-44, compared with 1938-39		Origin of Australia's civilian imports. Percentage change : 1943-44 compared with 1938-39
United Kingdom	— 43	United Kingdom	— 43
United States	+ 45	United States	+ 77
Other foreign	— 69	Other foreign	— 75
Canada	+ 80	Canada	— 74
India & Ceylon	+410	India & Ceylon	+315
Other British	+160	Other British	— 25

These tables clearly bring out the tremendous expansion of Indo-Australian trade during the period of the second World War. As Mr. Walker points out, India was third in order of importance as a source of Australia's war supplies, next to the U.K. and the U.S.A. and followed by Canada.[3] India also became an important source of supply of Australia's civilian imports. Not all of this expansion was expected to be wiped out after the war, and it is this aspect of the matter which invests post-war trends of Indo-Australian trade with a particular significance.

[1] Ibid. p. 321.
[2] Source : *Facts and Figures*, pp. 31-32, quoted in Walker, *Australian Economy in War and Reconstruction*, pp. 323 and 326.
[3] Ibid. p. 323.

Imports from Australia

	1939-40 Rs.	1940-41 Rs.	1941-42 Rs.	1942-43 Rs.	1943-44 Rs.	1944-45 Rs.	1945-46 Rs.
1. Living animals	9,43,962	1,85,793	20,794	3,775	50	—	50,000
2. Chemicals	49,565	1,90,024	7,67,339	57,752	1,21,012	3,86,854	3,34,895
3. Drugs and medicines	30,087	1,05,151	92,991	64,766	73,286	41,136	4,42,451
4. Fodder, bran, pollard	82,672	20,575	437	—	—	—	—
5. Fruits and vegetables	2,40,117	4,06,949	3,04,998	10,026	2,168	—	—
6. Grain, pulses, flour	61,86,554	21,40,714	25,77,640	14,346	29,72,795	6,90,13,311	54,78,689
7. Instruments	26,686	1,27,664	2,53,185	45,833	79,641	27,084	33,758
8. Leather	8,789	51,816	6,73,276	1,87,636	33,746	41,693	69,982
9. Liquors	1,49,929	13,30,049	33,57,103	8,68,816	6,83,071	15,91,368	11,59,292
10. Machinery and millwork	26,319	1,36,326	3,30,664	1,14,825	66,253	1,98,351	1,71,966
11. Metals and ores	62,65,014	30,57,798	16,38,712	19,45,662	9,27,329	4,44,785	2,79,79,399
12. Oils	7,715	19,879	19,059	5,92,146	645	7,631	4,46,925
13. Provisions	24,73,795	37,17,079	88,79,295	29,18,769	20,38,949	65,28,304	73,68,146
14. Soap	39,718	2,80,239	1,30,591	2,38,877	1,55,577	1,91,599	13,877
15. Tallow and stearine	22,83,036	13,10,819	39,15,007	27,18,646	34,81,047	18,11,302	23,02,230
16. Raw wool	48,96,553	1,06,78,799	2,42,76,413	2,17,75,381	3,67,21,170	2,04,77,125	2,24,65,592
Total including others	2,39,03,390	2,47,79,892	4,96,30,536	3,22,19,044	4,76,77,417	10,26,57,384	7,57,71,350

Exports to Australia

	1939-40 Rs.	1940-41 Rs.	1941-42 Rs.	1942-43 Rs.	1943-44 Rs.	1944-45 Rs.	1945-46 Rs.
Coffee	2,39,597	1,31,957	2,27,686	2,10,375	85,424	13,350	—
Drugs and medicines	14,325	37,156	2,25,626	1,85,465	1,45,408	62,474	60,769
Dyeing and tanning materials	2,66,965	1,89,508	3,28,807	2,98,484	3,15,806	1,67,245	1,38,130
Cashew kernel	1,47,580	2,19,248	3,29,525	5,179	—	—	61,653
Other fruits	78,965	7,25,845	5,75,523	19,294	5,523	—	—
Grain, pulses, flour	1,73,641	54,857	96,784	9,667	2,618	6,455	24,375
Gums and resins	77,399	87,828	4,80,564	2,19,291	85,975	30,865	28,558
Raw skins	18,58,499	12,47,801	12,63,387	10,42,432	11,73,158	11,57,596	10,99,511
Instruments	6,307	2,635	28,042	3,44,191	320	6,360	680
Kapok	59,367	18,243	82,743	6,72,802	—	6,97,599	7,55,139
Lac	3,38,792	4,71,985	11,67,963	8,75,523	6,38,473	2,98,219	12,89,609
Manganese	3,92,750	2,46,091	—	—	3,89,500	550	140
Mica	33,364	1,47,446	1,42,174	1,44,310	7,39,067	2,65,870	60,831
Oils	91,404	63,054	35,614	81,902	62,934	1,72,498	12,753
Paraffin wax	—	1,20,120	1,47,665	2,42,296	11,44,790	10,43,931	8,70,440
Provisions	1,14,671	97,630	1,47,825	1,10,420	90,783	1,03,110	55,318
Seeds	58,96,944	69,99,850	84,59,523	1,20,70,824	1,18,74,539	1,74,56,486	1,27,68,971
Spices	10,038	56,604	1,31,721	6,84,863	4,15,727	5,16,386	11,04,076
Cotton manufactures	12,89,372	1,08,41,956	3,47,76,654	7,57,24,338	4,24,57,916	3,39,82,984	2,50,03,050
Jute	9,60,499	11,62,259	19,99,149	8,72,987	21,52,256	26,48,441	12,02,515
Jute manufactures	3,62,98,375	4,15,36,478	4,92,69,769	4,28,23,709	4,25,52,648	6,97,89,542	3,27,27,657
Woollen manufactures	1,99,129	4,78,121	23,63,163	2,16,401	64,931	2,27,421	11,11,974
Total including others	5,49,62,040	7,33,95,398	12,31,79,051	16,07,68,705	13,23,67,317	14,67,95,958	10,56,51,287

Let us comment briefly on the wartime trend of India's imports from Australia. The expansion of Australia's exports to India was largely in response to the orders placed by the Eastern Group Supply Council (located in India) for military footwear, uniforms, blankets and other war supplies. Imports of horses for the army gradually dwindled into insignificance presumably because horses lost their importance in the days of mechanised warfare. In Australia manufacture of pharmaceutical and toilet preparations and industrial and heavy chemicals and acids had already established itself before the war. During the war production actually decreased (the number of factories having declined). The increase of imports of Australian chemicals into India was most probably due to the need for augmenting supplies of special items for the execution of war orders. The same remarks apply to the high levels of imports of drugs and medicines in certain years of the war. Imports of fruits and vegetables during the first three years of the war were also due to the need for provisioning troops. During the war there was a striking diversion of acreage in Australia to fruitgrowing and raising of vegetables. Imports of Australian wheat during the first few years of the war were limited by the declining trend of wheat output in Australia coupled with abnormal war demand elsewhere. The uptrend in imports of provisions, liquor, soap, and leather is explained by the heavy military requirements. Instruments and machinery and millwork were also imported in larger quantities to step up production in war industries (lathes and machine tools being very much in demand). Imports of metals and ores (copper and zinc) and tallow and stearine did not increase (except in the case of the latter in certain war years) owing to the heavy pressure of demand on these strategic raw materials. The most remarkable feature of the wartime development of India's import trade with Australia was the unprecedented increase in India's consumption of Australian wool.

The total value of India's exports to Australia far exceeded the total value of Australia's exports to India during the war years. The wartime rise of export prices explains part of the increase, but it must be noted that the controlled prices of India's exports were not abnormally high. Exports of Indian coffee declined in value as well as in volume, because of the pressure of alternative sources of demand (including internal demand) on domestic

supplies in India. In drugs and medicines India, on balance, exported more than she imported from Australia owing to the comparative stagnation of Australia's pharmaceutical industry. Similarly, on balance, there was an excess of the total value of exports of Indian fruits to Australia early in the war. Presumably, concentration of troops in Australia during this period explains the high demand for fruits and also cashew kernels imported from India. Development of war industries in Australia explains the high value of exports of a number of essential industrial raw materials (the alternative sources of supply being in many cases lost to Japan) viz., gums and resins, raw skins, kapok, paraffin wax, jute seeds and particularly spices. During the war Australia imported manganese for her growing steel industry and mica for her growing electrical goods industry. A most spectacular increase of exports was recorded in respect of cotton manufactures.

A careful analysis of the tables given above shows that in wartime India's exports were being concentrated on a few commodities which accounted for a high percentage of the total value of exports, as the following table shows.

EXPORTS OF PRINCIPAL COMMODITIES
(Rs. lakhs)

	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
1. Jute manufactures	363	415	492	428	425	697	327
2. Raw skins	19	12	13	10	12	12	11
3. Seeds	59	70	85	121	119	174	128
4. Cotton manufactures	13	108	348	757	424	340	250
Total	454	605	938	1316	980	1223	716
Percentage of (1) to (4) to the total value of all exports	82	82	76	81	74	83	68

After the end of the second World War, India's trade with Australia entered a new phase and reached record levels. During the war there had been a vast increase in the range of manufac-

turing industry in Australia. Even after the war there was a good deal of industrial expansion. While the Australian population had increased by 7,51,000 persons between 1939 and 1948, the population engaged in rural occupations had decreased by 58,000 persons between 1939 and 1947. The disproportionately large diversion of population to secondary industries created the problem of maintaining an adequate level of output in Australia's agriculture, mining, and pastoral industry. Apart from labour shortage, primary producers have had to face serious shortage of materials and mounting costs of production and marketing. But the value of rural production in 1949-50 was 285 per cent of the average pre-war level and a combination of good seasons and unprecedentedly high export prices contributed to this remarkable result. High export earnings created inflationary pressures and the cost price structure became highly inflated. India also faced inflationary pressures in her domestic economy. The post-war trends of Indo-Australian trade have to be reviewed in the perspective of the post-war inflationary situation which has just been broadly outlined.

The following table presents India's imports from, and exports to, Australia during the inflationary phase of the post-war period. The details of imports and exports have been given for the sake of comparison as well as for showing how a limited range of essential commodities accounted for a high percentage of the total value of imports of each of the two countries from the other.

IMPORTS FROM AUSTRALIA TO INDIA

	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
1. Living animals (horses)	42,000	1,09,000	6,33,000
2. Apparel	1,07,712	1,15,450	70,962
3. Belting for machinery	2,44,613	89,556	19,330
4. Chemicals	6,42,003	6,83,093	4,14,186
5. Drugs and medicines	9,42,716	4,12,104	3,89,626
6. Dyeing and tanning substances	3,05,546	1,14,164	42,612
7. Fruits and vegetables	3,18,322	2,86,652	17,98,048
8. Grain, pulses and flour	3,83,27,740	24,80,73,993	41,51,17,009
9. Hardware	12,13,206	6,21,810	4,21,387
10. Liquor	4,15,919	5,89,422	2,86,509
11. Machinery and millwork	51,49,691	32,47,324	23,71,483
12. Metals	1,31,38,377	43,00,376	69,65,679
Zinc or spelter	79,92,343	12,37,300	34,20,907
13. Provisions	2,08,15,423	2,05,24,935	3,05,90,249
14. Starch	1,53,313	1,04,672	1,86,026

	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
15. Tallow and stearine	47,70,230	36,13,707	42,72,882
16. Raw wool	1,16,52,585	1,33,16,467	74,07,956
17. Woollen manufactures	16,65,002	15,36,080	69,972
18. Mechanically propelled vehicles	21,40,365	5,09,702	34,33,596
Total including others	10,46,35,604	30,02,73,674	47,68,49,646

A careful analysis of the table of imports reveals that the bulk of the total value of imports from Australia in these years is accounted for by four commodities which in the order of their relative importance were (1) grain, pulses and flour, (2) provisions, (3) raw wool and (4) metals (mainly zinc and spelter). It was the trend of imports of these four commodities which largely determined the trend of total imports from Australia. It would, therefore, be sufficient if we discuss the trends of imports of these commodities in order to have a proper perspective of India's post-war import trade with Australia. The relevant statistics are given below :

IMPORTS OF PRINCIPAL COMMODITIES FROM AUSTRALIA

(Lakhs of Rs.)

	1947-48	1948-49	1949-50	1950-51	1951-52
1. Grain, pulses and flour	3,83	24,81	41,51	26,94	9,02
2. Provisions	2,08	2,05	3,05	1,82	3,63
3. Raw wool	1,16	1,33	74	90	93
4. Metals	1,31	43	69	2,15	95
5. Total of (1) to (4)	8,38	28,62	45,99	31,81	14,53
6. Total including others	10,46	30,02	47,68	33,44	17,60
7. Percentage of (5) to (6)	80	95	97	95	82

The enormous value of imports of grain and pulses during the three years under review is the most remarkable feature of India's import trade with Australia in recent years. In 1947-48 Australia had a record crop of 220 million bushels and India had

a most serious food deficit as the result of bad harvests and the dislocation of normal food supplies caused by the partition. India's food imports from Australia in 1947-48 were valued at Rs. 383 lakhs, as compared with Rs. 55 lakhs in 1945-46. The price of India's emergency purchases of wheat in 1947-48 was 18s.-6d. (Australian currency) per bushel, as compared with 17s. charged by the U.K. Ministry of Food. In 1948-49 India's food crisis continued its course. It was also necessary, in view of the developing dollar crisis, to buy as much food as possible in the sterling area. India purchased 25¼ million bushels of wheat and 2½ million bushels of wheat flour at a price of 14s.-6d. (Australian currency) per bushel.[1] The price of Australian wheat has not gone up since then owing to the narrowing of the margin between import demand and export availability and the operation of the International Wheat Agreement with effect from August 1, 1949. The increase in the total value of imports of grain and flour from Australia from Rs. 24,81 lakhs in 1948-49 to Rs. 41,52 lakhs in 1949-50 must, therefore, have been mainly due to diversion of India's purchases from the dollar area to Australia after the devaluation of the currencies of the sterling area. The statistics show a drastic decline in the total value of imports of grain and pulses from Australia in 1950-51 and 1951-52. There was a decrease of availabilities in Australia in 1951-52. Exports of self-raising flour to India were banned. Availabilities elsewhere increased. Moreover, there was an easing of the food crisis in India particularly after the successful negotiation of the Wheat Loan contract with the United States of America.

The trend of imports of 'provisions', the second most important item of imports from Australia, requires explanation. 'Provisions' are largely high-income goods, which are in the category of luxuries, and the imports of which are pared to the minimum when there is a deficit in the balance of payments.

Was Indian import control too liberal? Was there diversion of purchases from the dollar area, so that the increase in imports from Australia was offset by the decrease in imports from the U.K. or from the dollar area? The following table containing a detailed breakdown of the imports of 'provisions' from Australia throws light on these questions.

[1] In 1948-49 India was the second largest buyer of Australian wheat.

IMPORTS OF PROVISIONS FROM AUSTRALIA (Rs.)

	1947-48	1948-49	1949-50
1. Bacon and hams	1,18,451	1,805	91,871
2. Biscuits and cakes	6,69,995	63,656	9,864
3. Butter	12,26,350	2,50,944	19,06,362
4. Canned and bottled provisions	14,07,416	8,94,979	13,08,937
5. Cheese	11,35,584	3,87,582	16,16,957
6. Farinaceous and patent food	33,95,488	79,44,474	1,00,36,494
(Milk foods for infants and invalids)	(17,51,557)	(50,46,227)	(51,99,053)
7. Jams and jellies	20,42,543	1,86,738	2,61,696
8. Condensed and preserved milk	72,32,022	64,58,374	82,41,448
9. Other sorts	23,10,296	18,25,332	68,35,354

A good deal of this increase was due to diversion of purchases from the dollar area in order to conserve dollars for the sterling area. In 1950-51, which was a year of stockpiling boom and in which prices of processed food and dairy products reached high levels, imports of provisions from Australia (as well as imports in general) registered a sharp decline. They recovered again in 1951-52 when they reached the record level of Rs. 363 crores. The dollar crisis of the sterling area in 1951-52 diverted trade still further to the sources of supply in the sterling area.

The two other items, raw wool and metals, show a decline as compared with the wartime trend. The explanation of this trend is the high elasticity of India's demand for Australian wool, as contrasted with the low elasticity of demand for food products. In respect of metals also the total value of imports from Australia very largely reflects the rise of export prices and export control in Australia to meet the domestic shortage of metals.

Let us now study the trend of India's export trade with Australia. In this case also let us first scrutinise the detailed breakdown of exports given below.

EXPORTS FROM INDIA TO AUSTRALIA

	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
1. Building and engineering materials ...	15,590	4,36,246	3,83,034
2. Coal ...	—	12,00,470	60,01,660
3, Coffee ...	—	—	—
4. Coir manufactures ...	16,96,337	7,83,014	32,73,346

	1947-48 Rs.	1948-49 Rs.	1949-50 Rs.
5. Dyeing and tanning substances ...	3,44,780	2,60,091	4,69,087
6. Fruits and vegetables ...	15,79,159	5,40,889	16,35,796
7. Raw hides and skins ...	36,14,177	42,34,249	33,60,833
8. Kapok ...	13,71,105	10,37,267	15,64,420
9. Lac ...	25,21,504	15,70,544	19,73,787
10. Tanned and dressed skins ...	2,30,204	17,095	4,20,155
11. Leather ...	2,35,954	23,049	4,24,561
12. Manganese ore ...	7,25,455	20,619	6,10,249
13. Mica ...	7,26,250	3,92,328	4,61,218
14. Oils ...	1,20,18,826	93,19,397	62,89,379
15. Paraffin wax ...	37,88,996	32,34,861	11,38,042
16. Seeds ...	79,83,453	95,58,390	1,21,65,344
17. Spices ...	3,00,495	1,43,199	8,28,931
18. Tea ...	2,58,08,371	1,13,29,023	2,81,60,859
19. Cotton manufactures ...	2,11,99,925	2,02,31,956	3,64,09,200
20. Haberdashery and millinery	2,03,689	3,05,770	3,44,935
21. Raw jute ...	38,10,080	18,68,469	6,18,930
22. Jute manufactures ...	14,03,03,664	13,20,92,672	14,56,34,549
23. Carpets and rugs (woollen)	22,07,624	2,99,558	4,44,920
Total including others ...	24,29,15,267	20,59,99,389	26,16,68,486

An analysis of India's exports to Australia clearly shows that six commodities which collectively account for more than 80 per cent of the total value of exports have been (1) jute manufactures, (2) tea, (3) cotton manufactures, (4) oils, (5) seeds and (6) raw hides and skins (goatskins). The following table compiled from statistics given in the previous table indicates the concentration of Australia's imports on these six important commodities, the fluctuations in the imports of which explain the broad trend of total imports of Indian goods into Australia.

Exports of Principal Commodities to Australia
(Lakhs of Rs.)

	1947-48	1948-49	1949-50	1950-51	1951-52
1. Jute manufactures ..	1,403	1,320	1,456	1,351	3,114
2. Tea ..	258	113	281	321	133
3. Cotton manufactures ..	211	202	364	576	386
4. Oils ..	120	93	63	99	323
5. Seeds (linseed) ..	80	96	122	133	18
6. Raw hides and skins (goatskins) ..	36	42	34	47	58
7. Total of (1) to (6) ..	2,108	1,866	2,320	2,527	4,032
8. Total including others ..	2,429	2,060	2,617	2,996	4,662
9. Percentage of (7) to (8) ..	87	80	88	85	86

India's export trade with Australia has naturally varied with the magnitude of Australia's export earnings and the state of her economic activity. 1948-49 being a year of balance of payments difficulties for the sterling area in general, and of primary-producing countries in particular, India's exports to Australia in this year dropped considerably. During the next three years of boom the export trade with Australia picked up very fast and reached record levels in 1951-52. It was only in the middle of 1952 that the ratio of stocks to turnover rose sharply and the boom more or less began to collapse. While it lasted, however, Australia emerged as an important consumer of India's staple exports. Raw materials like oils, seeds, and goatskins were much in demand in Australia's established secondary industries (manufacture of soap extracts and powders, mixed and oil paints and varnish, and manufacture of leather and leather goods). The demand for Indian cotton textiles was sustained at high levels, because Japan was still out of the picture and the United States' cotton textiles were largely priced out of the Australian market, as the result of the devaluation of the Australian pound. It is interesting to note that the market for Indian tea which had been virtually lost to Indonesia before the war was regained after the war and even expanded considerably in recent years. The importance of the Australian market in respect of the six important commodities exported from India to Australia is indicated in the following table :

EXPORTS TO AUSTRALIA AS PERCENTAGES OF TOTAL EXPORTS UNDER EACH HEAD GOING TO ALL DESTINATIONS

	1947-48	1948-49	1949-50
Jute manufactures ...	13.5	8.8	8.6
Tea ...	4.7	1.7	3.8
Cotton manufactures ...	1.5	5.5	6.0
Oils ...	21.7	51.6	43.7
Seeds (linseed) ...	20.7	64.7	26.4
Raw hides and skins (goatskins)	7.4	8.8	5.1

It is clear that the importance of the Australian market has increased in respect of cotton manufactures, oils and seeds, tea, and goatskins.

In conclusion, the attention of the reader should be drawn to the position as regards India's balance of trade with Australia.

BALANCE OF TRADE (In lakhs of Rs.)

	Favourable (+)			Unfavourable (−)	
1936-37	+ 139		1945-46	+ 461	
1937-38	+ 105	Average	1946-47	+ 303	Average
1938-39	+ 4	+83	1947-48	+1568	+714
1939-40	+ 244		1948-49	− 192	
1940-41	+ 480		1949-50	− 761	
1941-42	+ 680	Average	1950-51	− 348	+400
1942-43	+1297	+710	1951-52	+2902	
1944-45	+ 852				

India's active balance of trade with Australia has been a traditional feature of the trade relations between the two countries. The interesting point which emerges from the statistics is the increasing size of the active balance with the expansion of trade. In 1948-49, 1949-50, and 1950-51, however, the active balance was converted into large passive balances in successive years, which amounted as Rs. 1,301 lakhs in the aggregate.

India's food imports from Australia have declined owing to the improvement of the food situation in India. At the same time, Australia's imports of cotton textiles from India may be replaced by imports from Japan. Indo-Australian trade will, therefore, adjust itself to a lower level of exports and imports in the short run. But, as our historical survey has shown, there is no reason to assume that the two expanding economies will not find increasing opportunities of mutually advantageous trade in view of the position they now occupy in the economic set-up of South-East Asia.

CHAPTER 12

PAKISTAN

IT is fairly well known that many of the economic difficulties faced by India after the second World War may be traced to the grave structural maladjustment suffered by the Indian economy as the result of the partition, the cumulative effects of which were superimposed upon the wartime distortions in the economic structure and the effects of lack of any planning of the transition from war to peace. But it was not foreseen when the partition came that the two economies carved out of one would not, at any rate for the time being, function as complementary economies on the basis of mutually advantageous trade unhampered by artificial impediments to movement of goods and services and transfer of payments. In fact, it was assumed that the creation of two separate currency units and two separate customs territories as the concomitant consequence of creating the States of India and Pakistan should not prevent them from adjusting their trade and economic relations on the basis of maintaining as low a barrier to the movement of goods and services and transfer of payments as is consistent with the mutual economic interest of both.

It is not known to many that one of the general exceptions to the provisions of the Havana Charter (the Final Act of which was signed on the 24th March, 1948) was that "in view of the special circumstances arising out of the establishment as independent States of India and Pakistan, which have long constituted an economic unit, the provisions of this Charter shall not prevent the two countries from entering into special interim agreements with respect to the trade between them, pending the establishment of their reciprocal trade relations on a definitive basis."[1] It was assumed that reciprocity in trade relations between the complementary economies of India and Pakistan should be free to develop as much as possible till a definitive basis was found which was not inconsistent with the general objectives of the Charter.

The history of the trade relations between the two countries has, however, belied this rational expectation. What is more tragic is

[1] The Havana Charter, Article 99 and Annex M.

that the two countries have become almost closed economic circuits separated by a barrier which obstructs not only reasonably free movement of men, but also mutually advantageous movement of goods and services and transfer of payments.

The trade statistics published after the 15th of August, 1947 are subject to serious limitations from the point of view of comparability because of the changes in their scope and comprehensiveness. Up to February, 1948, the figures for exports and imports were for undivided India. But since those relating to the trade of Karachi and Chittagong ports had been excluded with effect from the 1st and the 15th of August respectively, the published figures do not give a complete picture of the external trade even on the pre-partition basis. After the expiry of the Standstill Agreement between India and Pakistan with effect from the 1st of March, 1948, the trade statistics were brought to a post-partition basis. But the monthly figures included only the seaborne trade with Pakistan and it is only the subsequent estimation of figures for India's land-frontier trade with Pakistan, available only on an annual basis, (for the period April, 1948 to March, 1949) which helps us to form a more complete picture of the foreign trade for 1948-49 as a whole. Further steps towards completeness of statistical presentation were taken when the foreign seaborne trade of Kutch was included with effect from 1st June, 1948, and the maritime trade of Travancore, Saurashtra, and Baroda was included with effect from 1st April, 1949. Finally, with effect from 1st April, 1948, the presentation of India's trade statistics was modified by combining the figures for Government and private trade in merchandise.

A few important inferences can be drawn from the available statistics. The high value figures for imports, exports and re-exports after February, 1948 reflect the effects of the declaration of Pakistan as foreign territory with effect from the 1st of March, 1948. There is another aspect of India's increased dependence on foreign imports, viz., the necessity for a structural re-adjustment of her economy with a view to building up a stable export trade consisting of an increasing proportion of semi-processed and processed raw materials and manufactured products which can pay

for her changing import requirements. The large imports of capital goods and adjuncts of industrial production during recent years are symptoms of this structural readjustment. This has not been a smooth process, for it has created a serious disequilibrium in the balance of payments and aggravated the inflationary pressure. The big spurt in the total value of exports in March, 1948 and the similar figure for the total value of re-exports recorded in March and April, 1948 can very possibly be explained by the flow of merchandise to Pakistan. Besides liberalisation of quota restrictions and decontrol of many commodities, price controls on exports were removed during 1947-48. It is very likely that goods which used to move to Pakistan before the partition in the course of internal trade moved in fairly large quantities during the first two months after the declaration of Pakistan as foreign territory. (Export control was extended to the trade with Pakistan after 29th February, 1948).

In consequence of the partition an appreciable portion of India's re-export trade, which was to a large extent in commodities passing through Karachi, was lost to India. It should be noted that re-export trade has played an important role in India's foreign trade. In 1946-47, for example, domestic exports exceeded imports by only Rs. 9.75 crores ; but as the re-export trade amounted to Rs. 21.38 crores, the net favourable balance of trade was as much as Rs. 31.13 crores.

The main facts bearing on Indo-Pakistan trade may be briefly summarised. After the partition the major products of Pakistan—jute, cotton and hides and skins—were largely exported to India. India's jute and cotton mills depended largely on the supply of raw materials from Pakistan in exchange for which India exported to Pakistan manufactured goods, specially cotton piecegoods, and the most vital mineral product, viz., coal. Thus during 1948-49 in spite of political alarums and excursions and bitterness, India supplied 54 per cent of Pakistan's imports and bought 62 per cent of her exports.

The trade and payments position during the period July, 1948-June 1949 may be indicated as follows :

Indo-Pakistan Balance of Payments[1]
July 1948 to June 1949
(Crores of Rs.)

A. Imports	117.15
1. Raw jute	80.22
2. Raw cotton	17.33
3. Others (mainly hides and skins, betelnuts, cotton seeds, fruits and vegetables, salt and cement)	19.60
B. Exports	83.09
1. Cotton manufactures	17.45
2. Jute manufactures	6.85
3. Coal	6.53
4. Vegetable oil	6.85
5. Tobacco	4.86
6. Silk manufactures	4.74
7. Others (mainly chemicals, drugs, medicines, fruits and vegetables, hardware, iron and steel, leather, rubber, glassware, tea, spices, salt and re-exports ...	35.81
C. Surplus (+) or Deficit (–)	– 34.06
D. Net Disinvestment or Investment	+ 6.08
E. Errors and Omissions ... ... (including transactions financed by India notes)	+27.98

[1] Source : Reserve Bank of India. *Report on Currency and Finance*. 1950-51, Statement 84.

During this period a trade agreement concluded in May, 1948, supplemented by a payments agreement, governed the trade relations between India and Pakistan. The latter agreement stipulated the maintenance of the existing parity between the two rupees and precluded exchange control as between the two countries and any restrictions on the transfer on current or capital account of funds or securities from one country to the other. Each Central Bank agreed to sell to the other its own currency to the maximum extent of Rs. 15 crores against the currency of the other, sales beyond this limit being made against sterling from *No. 1 Account of the Central Bank concerned with the Bank of England* up to a maximum of £ 7.5 million and the balance, if any, being met out of the transfer of sterling from No. 2 Account.

In spite of the trade and payments agreements, however, the flow of exports from India was of a restricted character and the import programme, particularly in respect of jute and cotton, was only partially fulfilled. As regards imports from Pakistan, the heavy export duties levied in Pakistan on jute, cotton, cotton seed,

and hides and skins raised their prices on the total quantities bought by India by Rs. 10 crores and the imports were consequently discouraged. India's exports to Pakistan were discouraged not only by restrictive export controls, but also by the imposition of import duties by Pakistan on certain classes of cotton textiles and artificial silk and by the operation of the import licensing system in the case of sugar and handloom cloth, the imports of which from India were free of duty. The unofficial movement for boycott of Indian cloth restricted exports of Indian cloth in spite of its favourable price parity.[1]

It was clearly appreciated by the middle of 1949 that impediments to trade were quite formidable and India could not face such a large payments deficit with equanimity. It was necessary to aim at abolition or reduction of duties, simplification of export and import control procedures, and an understanding on the production and consumption of raw jute (and raw cotton), so that a monopoly pitted against a monopsony should not render supply, consumption, and terms of trade extremely unstable to the disadvantage of both the countries. As a gesture India was prepared to allow full rebate of excise on excisable commodities exported to Pakistan so as to make them available in Pakistan at lower prices.

Pakistan, however, wanted only a short-term agreement to keep the economic relations fluid. Thus an agreement signed on June 24, 1949 and valid for only one year provided for a quantum of trade which would reduce India's payments deficit to a much lower level. This was followed by another agreement on the exchange of certain varieties of handloom cloth. Progress in the implementation of these agreements had a sudden and severe setback after the devaluation of the Indian rupee and Pakistan's non-devaluation decision. Indeed, the restrictive and retaliatory measures adopted by the two countries assumed almost the character of economic warfare and led to the formation of two closed economic circuits in the place of two contiguous, complementary economies, whose mutual dependence was all the greater in a world of shortages in which long-distance international trade has to encounter so many abnormal price-raising resistances.

[1] Pakistan's purchase of Indian millmade cloth was much below the level agreed upon in terms of the trade agreement in spite of the fact that cloth offered at controlled prices were lower than prices paid by other countries.

Before we briefly narrate the main facts of this tragic episode we shall present the balance of payments position during the period July 1949-June 1950.

INDO-PAKISTAN BALANCE OF PAYMENTS

July 1949 to June 1950

(Crores of rupees)

A. IMPORTS	40.54
1. Raw jute	29.02
2. Raw cotton	2.30
3. Others (mainly hides and skins, betelnuts, cotton seed, fruits and vegetables, salt and cement)	9.22
B. EXPORTS	34.84
1. Cotton manufactures	2.96
2. Jute manufactures	2.53
3. Coal	4.03
4. Vegetable oil	2.28
5. Tobacco	5.88
6. Silk manufactures	0.79
7. Others (mainly chemicals, drugs, medicines, fruits and vegetables, hardware, iron and steel, leather, rubber, glassware, tea, spices, salt and re-exports ...	16.37
C. SURPLUS (+) OR DEFICIT (—)	—5.70
D. NET DISINVESTMENT (+) OR INVESTMENT (—) ...	+3.89
E. ERRORS AND OMISSIONS	+1.81

What is significant is not the better balanced current account position of India in relation to Pakistan but the drastic reduction in the total trade of the two countries. The aggregate value of India's exports to Pakistan during six months was almost as much as the payments deficit of India during the previous twelve months. The explanation of this tragic development in the face of India's balance of payments crisis is not far to seek. After the devaluation of the Indian rupee in September, 1949 Pakistan fixed the rate of exchange at Indian Rs. 144 = Pakistan Rs. 100. The Reserve Bank of India refused to recognise this rate on the ground that the two rupees were to be at par according to the Indo-Pakistan Financial Agreement.

The recognition of the rate of exchange fixed by Pakistan would have meant a rise in the cost of raw cotton and raw jute, two raw materials imported from Pakistan which entered into the com-

position of two important export products, viz. jute manufactures and cotton textiles.

The Indian Jute Mills' Association decided to suspend purchases of raw jute from Pakistan. A maximum price of jute was fixed. Purchasers were required to buy at rates fixed by the Association. The Open General Licence for the import of jute was cancelled. No unlicensed person was allowed to import jute. The Association became the licensing authority. Pakistan took defensive action by fixing a minimum price, controlled freight and baling charges, licensed merchants who handled the jute trade and arranged for purchase of jute through a special bank at the minimum price. The minimum sought to be maintained was much higher than the maximum sought to be maintained at Calcutta. There was a complete deadlock in the jute trade. The Open General Licence covering imports from Pakistan was also suspended, and covered only essential imports like fish, milk and milk products, poultry and fresh vegetables. India's exports of mustard oil and iron and steel to Pakistan were restricted by export duties levied by India as a defensive measure in the face of the situation created by the non-devaluation of the Pakistan currency. Pakistan on her part suspended the Open General Licence covering imports of Indian cotton textiles and raised the import duties on them to standard rates. Indeed, Indian cotton textiles were transferred to a non-licensable group, while imports from other soft currency countries were not subject to this restriction. The Government of Pakistan also removed exemptions hitherto granted to Indian manufactures, and suspended the Open General Licence in respect of imports of millmade and handloom cloth, yarn, groundnut oil, *vanaspati*, tea, cigarettes, matches, and toilet soaps made in India. While banks in India were free to deal in Pakistan rupees at free market rates Pakistan banks received directives to deal in Indian rupees at the official rate. Trade was thus restricted to what could be financed in contravention of this directive on the basis of free market rates. The trade deadlock was complete when in retaliation for Pakistan's holding up of 300,000 bales of jute bought before devaluation and in transit, India banned the export of coal to East Bengal in December, 1949.

The trade deadlock has injured the Pakistan economy as badly as it has reacted adversely on the structural equilibrium of the Indian economy. After the partition Pakistan had a favourable

balance of trade, her deficit with other countries being balanced against the surplus arising largely from her jute trade with India. After devaluation Pakistan's balance of trade tended to become passive because of the trade deadlock between India and Pakistan. The situation was met by stimulating exports to alternative markets. One should have expected that the effect of non-devaluation of the Pakistan currency would be to raise prices of Pakistan's exports (not necessarily to the full extent of the devaluation) to sterling and other soft currency countries and thus to reduce, or at least to prevent, an appreciable rise in the total value of exports. What happened was that the total value of exports to sterling and soft currency countries increased from Rs. 459 million in 1948-49 to Rs. 652 million in 1949-50. This was achieved by a fall in export prices in spite of non-devaluation. On the other hand, imports from these countries were strictly controlled, so that in spite of non-devaluation the total value of imports from these countries declined from Rs. 730 million to Rs. 581 million. On the whole, Pakistan converted the deficit of Rs. 272 million in 1948-49 in relation to this group of countries into a surplus of Rs. 71 million in 1949-50. At the same time the surplus of Rs. 198 million in 1948-49 in relation to hard currencies, which was supposed to be a sign of the intrinsic strength of the Pakistan rupee at the time of the devaluation controversy, was converted into a deficit of Rs. 46 million in 1949-50.

Judged by the fall in export prices Pakistan's terms of trade most probably deteriorated. The slump in export prices by which Pakistan maintained equilibrium in her balance of payments imposed a severe deflationary pressure on farmers producing raw cotton and raw jute. This could easily have been avoided, if Indo-Pakistan trade had not been paralysed by the forces of 'power economics' and if prices of Pakistan's exports to India had been governed by the same commercial considerations which applied to Pakistan's exports to sterling and other soft currency countries. One important effect of the trade deadlock between the two countries was the diversion of Pakistan's trade to other, and sometimes distant, countries. Pakistan's raw cotton was sold in the U.K., Japan, Hongkong and the U.S.S.R., while India's share in Pakistan's exports of raw cotton declined and more or less permanently disappeared. As the result of trade promotion measures, such as the conclusion of many trade agreements,

as well as through downward adjustment of export prices, Pakistan was able to obtain alternative export markets. After March, 1950, however, the stockpiling boom solved, to a large extent, Pakistan's export problem in respect of these commodities. The direction of Pakistan's imports also changed. For example, Japan, the U.K., and other countries replaced India as a principal supplier of cotton piecegoods.

The virtual suspension of the commercial relations between India and Pakistan after the decision of Pakistan not to devalue the Pakistan rupee was a kind of economic stalemate which could not last long. A fresh attempt was made to resume trade relations. The two Governments conducted negotiations and concluded a short-term trade agreement signed on 21st April, 1950, which was to be valid in the first instance up to the end of July, 1950. Non-recognition of the par value of the Pakistan rupee by India was not allowed to stand in the way of limited resumption of trade on the basis of virtual barter, the movement of commodities being so regulated as to achieve a balance between exports and imports in terms of Indian rupees. The basis of the agreement was a deal between the Jute Mills' Association in India and the Jute Board of Pakistan, according to which India was to buy 8 lakh bales of raw jute in terms of Indian rupees and Pakistan was to utilise the sales proceeds (credited to an account of the State Bank of Pakistan with the Reserve Bank of India) in buying specified quantities of jute manufactures (20,000 tons), cotton textiles (45,000 bales), mustard oil (7,000 tons), steel (5,000 tons), etc. Free trade was to be allowed in respect of a number of other commodities, apart from the self-balancing items mentioned above, but there was no obligation on either side to provide foreign exchange in respect of the trade in the free market sector. Since Pakistan could not keep to the time schedule with regard to the delivery of raw jute, the reverse movement of commodities from India which depended for its finance on jute deliveries was also delayed. In the absence of an effective exchange rate and the unwillingness of Pakistan to sell for Indian rupees, trade in the free market sector was limited to barter transactions. Nevertheless, there was a considerable expansion of trade between the

two countries.[1] The total value of trade between April and September, 1950 was of the order of Rs. 43 crores (imports into India of Rs. 24 crores and exports to Pakistan of Rs. 19 crores). Pakistan supplied raw jute worth Rs. 12 crores which was utilised for buying from India cotton and jute manufactures and a few other items. In the so-called free market sector there was a deficit of Rs. 5 crores against India.

After September, 1950 two factors paved the way for a more stable basis of trade between India and Pakistan. In the first place, Pakistan was admitted as a member of the International Monetary Fund which accepted the initial par value of the rupee declared by Pakistan. In the second place, the raw material boom generated by the outbreak of the Korean war had in the meantime favoured Pakistan with a seller's market, while India experienced an acute shortage of raw jute in the face of a peak demand for jute manufactures. In view of the altered conditions of the market India took the initiative in opening negotiations for a fresh trade agreement which would create conditions for resumption of trade between the two countries on a definitive basis. The outcome was a satisfactory agreement which was signed on 27th February, 1951.

The difficulty about the exchange rate of the Pakistan rupee was got out of the way. India accepted the par value of the rupee communicated to the International Monetary Fund and subsequently accepted by it. The Pakistan currency was placed on the footing of a foreign currency and exchange control was extended to cover the Pakistan rupee. Applications for remittance to Pakistan were treated on the same basis as those for remittance to any sterling area currency, but remittance on account of capital transfer, dividend, interest, pension and profit, etc. were not permitted so long as corresponding facilities were not granted by the Pakistan exchange control authorities. The institution of exchange control meant that formalities were now required to ensure that the full foreign currency proceeds of exports were fully realised in an approved manner. It was also agreed that the rupee balances accumulated by the Central Bank of either country would be convertible into sterling without any restrictions.

[1] The bulk of the trade transactions in 1950 was effected in the second half of 1950, the value of the total trade during the second half being Rs. 50 crores, as compared with Rs. 14 crores during the first half of 1950.

The trade agreement itself included a list of all the important items needed by both countries. The volume of sale or purchase in most cases was less than that provided in trade agreements concluded before the devaluation of the Indian rupee. But whereas in the past the targets were hardly fulfilled, there was now a chance that the smaller quantities agreed to would actually be exported and imported. Moreover, one must not forget that Pakistan was in a stronger bargaining position in view of the raw material boom. India secured a quota of 35 lakh bales of raw jute of which 10 lakhs were available during the period up to June 30, 1951 and the balance in the next twelve months. Pakistan was also to sell to India 7.7 lakh tons of foodgrains, deliveries extending up to October, 1952. Among India's exports to Pakistan important commodities were (1) coal (2.1 million tons of which 0.6 million tons were to be supplied before June 30, 1951) ; (2) millmade cloth (75,000 bales) ; (3) cotton yarn (15,000 bales) ; and (4) jute manufactures (62,000 tons). Appended to the trade agreement was a list of commodities which were placed on the Open General Licence and which included many commodities in which both countries had a large border trade.

It would be optimistic to expect Pakistan and India to evolve a kind of regional preferential arrangement by means of which the two contiguous economies may reciprocally assist each other's economic development through mutually advantageous trade, and which may be a half-way house to the eventual formation of a customs union, which even some of the countries of Europe with their long tradition of nationalist rivalry have accepted as a rational solution to their economic problems. But one may hope that the two countries will at least accord to each other most-favoured nation treatment in economic matters, in general, and in the sphere of foreign trade and payments, in particular.

PART V

INDIA'S TRADE WITH OTHER PACIFIC COUNTRIES

CHAPTER 13

CANADA

IN this and the following chapters it is proposed to study India's trade relations with Canada and the United States of America respectively—the two key countries situated in the Pacific region, which have been playing a dominant role in the Far East and the Pacific region not only through the pursuit of common political or strategic interests high-lighted by the second World War, but also through the impact of trade and economic assistance by which the war-ravaged economies of the Orient are slowly regaining economic equilibrium.

In a survey of economic relations centred on international trade it is necessary at the outset to point out certain similarities, as well as points of difference, between Canada and the U.S.A., which have an important bearing on their trade relations with the Far Eastern and Pacific countries. Since the early decades of the present century, both Canada and the U.S.A. have taken a keen interest in the economic and political fortunes of this region, although their trade (as well as their political influence) with countries of this region has waxed and waned with the changing fortunes of the imperial powers of the West who have dominated the trade and politics of this region. As countries situated in the peripheral range of this zone, both Canada and the U.S.A. have developed broadly common interests (except on certain occasions in the past) and have faced common problems. Soon after the second World War both countries have found themselves with large export surpluses, an increase in production being matched by an increase in world demand. Both have offered grants and loans to potential buyers which have masked payments difficulties. Both are alike in normally importing a narrow range of products from countries of South-East Asia. The U.S.A., as the world's largest producer of agricultural and industrial products, has, in any case, only limited import demand. Canada, as a great primary-producing country itself, does not depend much on the resources of South-East Asia, and, with a highly diversified, complementary economy, such as

that of the U.S.A., near at hand, she can meet most of her import needs without being too dependent on a trading bloc like the Commonwealth. Finally, the exports of both countries have been kept at much higher levels than would have been otherwise possible by, among other things, the implementation of the European Recovery Programme.

There are, however, notable points of difference. The U.S.A. is relatively more self-sufficient, because her production based on greater diversity of soil and climate is much more diversified. Owing to natural limitations Canada has specialised in the production of certain basic foodstuffs and raw materials. The structure of her economy has been built on the basis of production of goods, especially foodstuffs, for the United Kingdom market, and its export capacity in this respect expanded greatly during the period of the second World War. Canada's stake in export markets in Europe has also been traditional. Since the home market in Canada is small, compared with the U.S.A.'s home market, Canada's overall stake in the export trade is of a much more crucial character. The tremendous expansion of production achieved during the last few years has made Canada more dependent than ever on an expanding export trade.

Before the war, it was customary for Canada to settle a large deficit in her current transactions with the U.S.A. out of large surpluses with Britain and western Europe. The so-called North Atlantic Triangle, which is the usual description for this triangular settlement of the balances, is an over-simplification of reality ; but the triangular pattern was part of a worldwide multilateral settlement of balances in which the trade of both Europe and Canada with South-East Asia played an important part. Europe ran a large deficit in her trading transactions with the U.S.A. She earned sufficient dollars to finance the deficit with both the U.S.A. and Canada largely through her earnings in the Far Eastern countries, which, in their turn, had an export surplus with Canada and the U.S.A.

Canada's export trade with countries of South-East Asia has diminished so far as the range of products is concerned, if not in importance, as the result of the developments explained above. But the high level of economic activity in Canada, as in the United States, has necessitated large imports of commodities included in the range of tropical products, like rubber, cocoa, tea, wool, and

jute. In fact, India's jute manufactures, tea, lac, and cashew nuts have been important dollar earners in recent years.

Before World War I Canada did not have much to do with trade with the Far East, her main preoccupation being the development of internal resources. However, there was a slow, but steady, increase in Canada's trade with China and Japan across the Pacific. Canada exported to Japan lumber, pulp, wheat, nickel, lead, aluminium and zinc. She imported from Japan mainly silk and also pottery, toys, tea, rice and oranges. Canada used to have a large export surplus with Japan. Canada exported to China wood and wood products (which were the main items) including paper as well as wheat and wheat flour. She imported from China agricultural products like peanuts, walnuts, peanut oil, tea, spices, silk and silk products, manufactures of flax, hemp and cotton, lace, and other products of Chinese crafts.

Canada's trade with India in the early years of the present century was insignificant by comparison, as the following table shows.

	1900-01 Rs.	1901-02 Rs.	1903-04 Rs.
IMPORTS FROM CANADA ...	9,004	2,18,019	1,33,306
EXPORTS TO CANADA			
1. Hides and Skins ...	33,150	62,000	32,750
2. Gunny bags ...	19,156	8,424	11,312
3. Gunny cloth ...	1,82,900	1,44,308	17,000
4. Black tea ...	—	—	34,63,480
5. Green tea ...	—	—	86,189
6. Rice not in the husk ...	—	—	3,02,890
Total including others ...	10,48,043	6,32,651	39,46,433

India's imports from Canada were so insignificant that the items were not recorded in the old trade returns that are available. But it must be noted—and this remark applies to all commodities exported from India—that Canada obtained quite a substantial part of Indian imports through *entrepot* trade *via* New York.

During World War I, there was a considerable expansion of the Canadian economy. Earlier the Canadian economy had been geared to a high rate of investment and capital construction induced by a wheat boom which broke in 1913 and checked the inflow of foreign capital. But the wheat boom was followed by the war boom. Apart from the increase of wheat production there was an increase in the output of non-ferrous metals—copper, lead, zinc and nickel—from \$ 29 million in 1913 to \$ 74 million in 1918. Though lumbering made little headway, owing to the relative exhaustion of the United States' forest resources and the exclusion of Scandinavian supplies, the Canadian newsprint industry had its first great opportunity : the exports of pulp and paper increased from \$19 million in 1913 to \$105 million in 1919. The Canadian iron and steel industry reached a new record of output in war-time. Canada supplied the allies with ships and airplanes (\$ 100 million) and also about \$ 1 billion worth of ammunition. Many of these commodities were available for export to the Far East during and after the war. An industrial country like Japan could offer an expanding market for these Canadian products.

Canada's export trade with India during the war was negligible and could not bear comparison with the expansion of the export trade of either Japan or the United States or even Australia with India. But India imported from Canada railway sleepers, wood and timber, metals, hardware, parts of ships, and provisions and oilman's stores, and the range of goods was wider than in the early years of the present century. But India was not an industrial country like Japan which needed to import industrial materials from Canada, nor was she an importer of wheat and meat. Canada was not in a position to supply India with basic consumer goods the supplies of which from Europe were cut off by the war and which could be replaced by Japanese or American goods.

India's export trade with Canada was much more important in total value. During the war India's export surplus with Canada, which had always been quite large, reached record levels specially during the last three years of the war. Exports of hides and skins were large in view of the fact that Canada's output of boots and shoes increased considerably to replace imports from Britain and to fulfil war orders.[1] India's tea exports were kept at high levels.

[1] There was 10 per cent increase in employment in Canada's boot and shoe industry.

By far the largest increase was in respect of jute manufactures which accounted for the major part of the export trade.

It was during the post-war period that Canada's trade with the Orient reached large dimensions owing to the greater diversification of Canada's export production and its better adaptation to the changing requirements of the eastern countries. "The age of steel and steam within which Canadian economic development had hitherto taken place had to make way for the age of alloys, hydro-electric power, and the internal combustion engine."[1] The development of hydro-electric power, the gasoline engine and the use of new industrial metals shifted the balance of Canada's industrial advantage in the 'twenties.

During the post-war decade, the production of non-ferrous metals in Canada's central provinces was almost doubled, and the output of paper increased by nearly three times. Manufacture of pulp and paper became Canada's leading manufacturing industry, and export of newsprint was the second largest Canadian export. In the central provinces of Ontario and Quebec, apart from the manufacture of non-ferrous metals and paper and pulp, manufacturing industries became increasingly diversified, and included manufacture of cotton and woollen textiles, iron and steel, agricultural implements, railway rolling stock, automobiles, electrical apparatus and supplies, chemicals and chemical products, rubber products, boots and shoes, furniture, glass products, liquors, meat products, fruit and vegetable canning, etc. For a number of these (automobiles, farm implements and rubber products) Canada built up important export markets on the basis of empire preferences.

INDIA'S IMPORTS FROM CANADA

(In thousands of Rs.)

	Pre-war average	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Motor cars	—	90,47	20,97	43,19	76,22	81,72	111,01	128,68	1237.4
Paper & pasteboard	—	6,40	7,17	14	47	48	80	35	22

[1] *Report of the Royal Commission on Dominion-Provincial Relations*, Book I, Canada, 1867-1939, p. 112.

	Pre-war average	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Wood pulp	—	80	7,19	—	—	—	—	—	—
Railway plant	79	20,75	2,14	6,40	4,09	—	—	50	—
Rubber manufactures	—	—	—	—	—	-	14,50	20,94	4516
Sugar	—	—	—	—	—	—	1	12,79	89
Other articles	30	14,53	13,48	15,63	8,77	16,82	4,09	5,57	849
	1,09	1,32,95	50,95	65,36	89,55	99.02	130,41	168,83	178,50

A few brief comments may be made on the two new items of Canada's exports to India. Reference has been made above to exports of Canadian cars to India after the first World War. During the post-war depression while the purchasing power in India was low, the import duty on cars was raised from 20 per cent to 30 per cent in 1922. But this was neutralised by price-reductions in the case of American and Canadian cars. There was in fact an increase of 50 per cent in the number of cars imported. In 1922-23 the average declared value of cars imported from Canada was Rs. 1,982, as compared with Rs. 3,169 for the U.S.A. and Rs. 7,312 for the United Kingdom. Apart from the price factor, American and Canadian cars were better suited to long distance touring and estate work for which they were primarily designed in response to the requirements of the home market.

With the reduction of duties in 1927, imports of cars into India increased to 25,950 as compared with 10,210 in 1923-24. The imports of motor omnibuses, vans and lorries from Canada increased in 1927-28 from 3,529 to 4,268 in number and from Rs. 48 lakhs to Rs. 53¾ lakhs in value. The reduction of duty and the expansion of motor transport in India were also responsible for a considerable increase in the imports of rubber manufactures into India in which Canada gained a substantial share. The number of pneumatic motor covers imported rose by 35 per cent and their value increased from Rs. 118 lakhs to 169¼ lakhs. The imports from both Canada and the U.S.A. were almost double the imports of 1926-27, the total value of imports from Canada being Rs. 36 lakhs. Canada also exported to India in 1927-28 pneumatic motor tubes of the total value of Rs. 6 lakhs. On the whole, it is interesting to note in this case how Indo-Canadian trade in the 'twenties was stimulated by the synchronization of the deve-

lopment of the automobile industry in Canada with the remarkable development of motor transport in India.

The expansion of the Canadian economy in the 'twenties was responsible for the high level of demand for India's staple exports to Canada, as the following table shows.

INDIA'S EXPORTS TO CANADA
(In thousands of Rs.)

	Pre-war average	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Gunny cloth	40,29	85,09	73,89	126,86	111,24	127,16	139,05	110,65	132,34
Tea	54,91	27,61	55,11	74,29	104,53	82,75	56,37	83,14	69,49
Other articles	14,09	21,54	18,07	18,55	27,56	18,23	17,27	11,40	17,39
	109,29	134,24	147,07	219,70	243,33	228,14	212,69	205,19	219,22

While the total value of India's exports to Canada almost doubled itself in the 'twenties, the total value of exports of gunny cloth was three times as much as it was before the war—a trend which merely reflected the rise in economic activity in Canada. Canada, together with the U.S.A., was an important consumer of India's gunny cloth. In 1922-23 as the effects of the post-war depression wore off, Canada increased her purchases of gunny cloth. The value of India's tea exports to Canada also jumped in 1922-23 and continued at a high level during subsequent years. This is explained not only by a strong demand for common teas, but also by the fairly steady and low rate of exchange, reduction in freight rates quoted by the Conference Steamship Lines, and maintenance of quality.

The development of Indo-Canadian trade which was well under way in the 'twenties suffered a setback during the depression to regain its momentum by the end of the inter-war period. The peak in the 'twenties was reached in 1928-29, the nadir was reached in 1932-33 and the upswing was again evident in 1938-39 just before the outbreak of the second World War. The position is illustrated in the following comparative tables.

IMPORTS FROM CANADA (Rs.)

		1928-29	1932-33	1938-39
1. Boots and shoes (largely rubber soled)	...	5,10,541	10	—
2. Chemicals and chemical preparations	...	24,192	1,60,818	3,23,696
3. Machinery and millwork	...	42,795	1,73,353	6,80,162
4. Metals	...	63,516	5,94,201	6,88,768
5. Provisions and oilman's stores	...	87,674	2,18,589	6,20,635
6. Rubber manufactures	...	71,33,771	5,69,591	1,06,899
7. Vehicles	...	1,39,93,203	13,82,648	55,69,477
'otal including others	...	2,45,72,128	33,54,392	90,75,586

EXPORTS TO CANADA (Rs.)

1. Coffee	...	1,67,595	39,000	6,827
2. Rice not in the husk	...	1,38,954	3,60,141	3,37,787
3. Raw hides and skins	...	1,68,535	—	19,500
4. Manganese ores	...	1,96,000	25,090	—
5. Mica	...	1,58,703	29,087	30,166
6. Paraffin wax	...	4,49,450	5,71,200	—
7. Spices	...	1,18,433	61,344	27,884
8. Tea	...	70,37,686	80,32,993	97,91,826
9. Gunny bags	...	1,67,008	3,05,034	4,21,403
10. Gunny cloth	...	1,52,19,304	65,03,628	74,57,773
11. Carpets and rugs	...	1,60,119	1,11,572	7,06,282
12. Coir manufactures	...	7,110	6,650	1,14,906
13. Dried fruits (cashew kernels and others)	...	—	—	6,71,697
14. Castor oil	...	—	43,760	2,01,790
15. Oilseeds	...	—	—	7,63,417
16. Raw cotton	...	—	—	1,33,097
Total including others	...	2,44,04,219	1,62,57,254	2,13,86,107

When we analyse the trend of imports from Canada, we find that although in the year of depression, 1932-33, the total value of imports sank to between 1/7th and 1/8th of the total value of imports in 1928-29, yet the total value of imports of capital goods—metals, machinery and millwork and chemicals and chemical preparations[1]—showed a phenomenal increase presumably in response to the needs of industrial development in India during the depression. This increase was, however, much more than offset by the sharp decline in the total value of imports of

[1] This new item of imports was a further evidence of the increasing adaptability of Canada's export industries to the requirements of countries like India.

motor vehicles and of the complementary goods, rubber manufactures—a trend which is explained by the acute depression in agriculture and rural distribution and the consequent decline in motor traffic. The disappearance of imports of rubber-soled boots and shoes from Canada is explained by the replacement of imports by domestic manufactures. The appreciable increase in the total value of imports of provisions and oilman's stores merely underlines the increasing competitive efficiency of Canada's new food-processing industries.

A fact which is not disclosed by the ordinary trade returns, but is nonetheless significant and should be particularly noted is that even in 1932-33 the Canadian export item with the highest value was 4,657,107 oz. of silver worth $ 1,419,500. Indeed India along with China consumed as much as 40 per cent of Canada's silver production.

It is necessary at this point of our survey to assess the bearing of tariff arrangements on the development of Indo-Canadian trade in the 'thirties. Canada had hitherto followed the principle of conditional most-favoured-nation treatment in the matter of dealing differently with the United Kingdom *vis-à-vis* the United States. But Canada's tariff changes in 1930 had the effect of positively inducing the diversion of Canada's trade to the countries of the British empire. From 1930 to 1931 the proportion of Canada's imports from the empire increased from 20.3 per cent to 22.6 per cent and the proportion of exports to the empire countries increased from 34.0 per cent to 36.6 per cent. Canada had entered into tariff treaties with Australia and British West Indian colonies, which provided for reciprocal reduction of tariffs to special rates of duties which were lower than the intermediate and general tariff rates. The schedules covered a wide range of goods. The reductions in duties were in most cases substantial; what was also important for Canada's export trade was the effectiveness of non-preferential duties in shutting out competitive goods.

There was, however, no case for special reciprocal preferential arrangements between India and Canada. While Canada stood to gain by specially low rates of duty, commodities exported from

India to Canada were such that they did not need any adventitious aid in the form of lower duties. The tariff treatment accorded to exports from India, for example, in 1935, as shown below, brings out this aspect of the question.

TOTAL VALUE OF INDIA'S EXPORTS (in $)

Dutiable under General Tariff	...	35,166
Dutiable under Preferential Tariff	...	2,938,349
Dutiable under Treaty Tariff	...	—
Free under General Tariff	...	399,558
Free under Preferential Tariff	...	3,041,871
Free under Treaty Tariff	...	—

This brings us to a survey of India's export trade with Canada in the 'thirties. The predominance of gunny cloth and tea as the main staples of India's exports to Canada was being well maintained, but there was nevertheless a tendency towards greater diversification of exports. While mineral paraffin wax, hitherto mostly exported from Burma, disappeared as an item of exports after the separation of Burma, new commodities, viz. coir manufactures, dried fruits (mostly cashew kernels), castor oil, oilseeds and raw cotton began to figure in the export trade. India's export trade with Canada thus showed a pattern which is characteristic of her export trade with a mature industrial country. The almost sevenfold increase in the value of exports of carpets and rugs to Canada in 1938-39, as compared with 1928-29 or 1932-33, was an indication of the growing popularity of Indian carpets and rugs in the context of the increasing economic prosperity of Canada. In 1932-33 Indian woollen carpets had sold in Canada at $ 2 per square yard. In subsequent years the prices were not much higher and naturally attracted buyers.

The second World War found Canada poised for a tremendous expansion of productive power, apart from the full utilisation of excess capacity in Canada's agriculture, transportation, and industries like pulp and newsprint. Canada doubled her pre-war industrial capacity and raised her agricultural production by 50 per cent with a depleted labour force. Her exports rose to a level higher

than that of any other country, except the United States. In the year 1944, her exports exceeded 271 per cent of the pre-war value, and the value of total trade was 300 per cent in excess of the 1939 level.

The tremendous pace of Canada's productive activity was the basis of the war effort of the United Nations and was responsible for removing their critical shortages of food, raw materials, capital goods, and essential consumer goods. Canada's trade with India during the war and the immediate post-war years bears ample testimony to this remarkable phase of Canada's recent economic development.

In wartime, imports from Canada covered a wide range of foodstuffs, capital goods, and consumer goods which were in the 'essential' category. It will be noticed that Canada stepped into the breach caused by the disappearance of supplies from the traditional sources in Europe including the U.K. and Japan. Belting for machinery and bobbins needed in textile mills were imported from Canada. Canada's newly developed chemical industry had established a foothold in the Indian market in the 'thirties. In the immediate post-war years, Canada became an important supplier of synthetic fertilizers. Even in the field of light chemicals, the expanding market for Canadian drugs and medicines was a new trend. An allied branch was liquor manufacture which also developed remarkably in Canada in war years. Consequently, Canadian liquors were imported into India in wartime and assumed large proportions after the war. Imports of instruments, apparatus and appliances, and of machinery and millwork filled the vacuum left by cessation of imports from Europe and Japan and also met the requirements of expansion and replacement of plant and equipment in India.

India imported from Canada such goods as electrical apparatus (telegraph and telephone apparatus), electric wires and cables, electric lamps and parts, optical goods, photographic instruments, wireless instruments, and surgical instruments. Machinery and millwork included control and switchgear, generators, alternators, dynamos, boot and shoe manufacturing machinery, metal-working machinery (including machine tools), mining machinery, paper mill machinery, pumping machinery, flour mill machinery, and cotton mill machinery. Apart from lead, quicksilver, and other metals, India imported aluminium (to supplement domestic manu-

Imports from Canada (Rs.)

	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47	1947-48
1. Belting for machinery	2,61,622	94,228	18,945	1,35,817	9,19,356	7,01,393	10,08,164
2. Bobbins ...	—	1,17,962	—	3,02,894	6,57,182	3,09,853	4,25,444
3. Chemicals and chemical preparations ...	12,73,675	30,45,432	15,58,770	31,55,531	34,99,210	23,79,981	26,75,909
4. Drugs and medicines	2,92,534	2,92,849	89,935	7,25,122	2,90,961	4,31,537	8,92,987
5. Wheat ...	—	—	—	15,55,644	1,49,43,207	1,30,69,932	22,85,651
6. Instruments, apparatus and appliances ...	8,22,251	14,08,495	6,91,658	1,80,823	9,52,969	13,86,947	50,35,720
7. Liquors ...	7,07,877	36,244	26,85,125	1,62,468	16,21,245	31,57,910	44,57,804
8. Machinery and millwork ...	10,12,791	13,26,250	3,27,646	11,10,342	21,74,127	15,60,450	36,42,931
9. Synthetic fertilizers	—	—	—	14,80,211	9,68,458	30,36,786	61,81,926
10. Metals (mainly manufactures of iron and quicksilver) ...	77,86,244	1,08,88,008	1,02,84,219	1,35,26,709	88,67,562	1,33,08,842	1,32,10,695
11. Paper and pasteboard	76,41,715	46,86,342	40,28,780	78,53,752	1,11,15,946	97,96,932	87,69,752
12. Provisions and oilman's stores (mainly farinaceous and patent foods) ...	25,84,797	4,33,412	4,58,513	5,41,112	8,86,149	27,33,059	36,59,259
13. Tea chests ...	22,47,510	12,66,957	9,23,374	16,50,522	10,69,125	7,39,726	1,35,216
14. Toilet requisites ...	22,28,026	1,76,380	60,624	9,487	5,73,173	8,37,941	21,36,216
15. Mechanically propelled vehicles (mainly motor-car parts and chassis)	3,65,87,488	2,97,08,169	23,00,695	68,54,366	3,58,30,340	1,49,65,780	2,85,68,043
Total including others ...	6,72,94,252	5,52,44,833	2,51,77,568	4,28,89,371	8,76,40,744	7,18,89,658	9,16,86,885

Exports from India (Rs.)

	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47	1947-48
1. Coir manufactures ...	1,62,149	2,88,067	1,95,645	2,91,002	13,55,589	18,89,523	4,52,819
2. Dried fruits and vegetables ...	27,84,369	19,44,659	—	—	10,55,759	34,58,619	4,04,410
3. Goatskins ...	1,94,450	3,48,913	6,20,940	10,45,141	12,94,101	3,01,562	8,73,530
4. Lac ...	12,83,463	3,64,113	—	6,160	3,91,582	33,71,859	15,58,202
5. Leather ...	5,29,525	1,76,203	3,53,379	8,36,164	9,53,887	4,14,142	5,07,838
6. Chrome iron ore ...	17,66,272	15,00,903	9,93,247	7,18,401	1,83,764	—	—
7. Vegetable oils ...	20,38,358	27,11,691	7,600	—	1,81,120	9,68,758	62,19,646
8. Groundnuts ...	12,50,339	12,32,426	—	47,17,385	9,37,300	—	41,67,279
9. Tea ...	2,99,17,050	84,05,432	2,81,29,318	3,80,26,602	1,96,90,485	2,39,28,382	2,16,57,546
10. Raw cotton ...	2,79,137	14,81,034	3,28,190	3,84,213	7,32,456	11,35,887	2,51,382
11. Raw jute ...	12,97,390	13,78,014	2,05,500	48,217	13,97,333	18,46,242	14,68,625
12. Jute manufactures ...	1,96,65,055	1,62,85,296	1,09,30,205	2,05,83,843	3,26,70,931	3,12,42,040	6,68,94,632
13. Woollen carpets and rugs ...	13,46,788	4,63,185	3,63,672	9,58,900	31,94,271	91,61,187	63,03,730
Total including others —	6,47,14,563	3,77,93,437	4,87,45,059	6,90,19,218	6,07,16,433	8,16,12,762	11,50,40,978

facture), brass, bronze, and similar alloys and also wire rope, wire, and iron tubes, pipes and fittings. Imports of paper and pasteboard from Canada assumed large proportions, because supplies from the traditional sources in Scandinavian countries were entirely cut off by the war. Canada supplied India with farinaceous and patent foods (for babies and invalids)—an essential category of imports. Wooden tea chests were also a new item of imports which replaced tea chests normally imported from Finland and Scandinavian countries. Toilet requisites were a new item the imports of which replaced supplies from traditional sources, particularly the United Kingdom. In addition to these new categories of imports there was, of course, the most important traditional line of imports, viz., mechanically propelled vehicles.

The end of the war did not mean the end of critical shortages of most of the essential commodities mentioned above. Rather shortages were accentuated by the backlog of demand, reinforced by plentiful purchasing power impinging upon the limited supplies available. There was a sharp inflationary rise in import prices during the immediate post-war years. It is interesting to note that in respect of almost every line of imports from Canada there was a considerable increase in the total value of imports in the immediate post-war years. Part of this increase is also explained by the rise of Canadian export prices.

There are two essential items of imports which have assumed a crucial importance in India's import trade with Canada in post-war years. They are wheat and synthetic fertilizers, the importance of which is easily realized in the context of India's critical food problem in recent years. It was in 1944-45 that India for the first time imported wheat of the value of about Rs. 15½ lakhs, and synthetic fertilizers of the value of about Rs. 15 lakhs. Imports of wheat amounted in value to about Rs. 150 lakhs in 1945-46 and Rs. 131 lakhs in 1946-47. Imports of fertilizers were about Rs. 30 lakhs in 1946-47 and Rs. 62 lakhs in 1947-48.

The trend of India's exports to Canada during and after the war broadly followed the trend of imports, both being adjusted to a high level in terms of value. While imports from Canada were running at the rate of Rs. 478 lakhs per annum on the

average after Pearl Harbour, India's exports to Canada were running at the rate of Rs. 550 lakhs per annum on the average, as compared with Rs. 214 lakhs in the pre-war year. Considering the rise in export prices, there does not seem to have been any rise in the post-war volume of export trade : probably there was an actual fall, exports being severely limited to indispensable quantities and categories.

We observe a distinct change in the composition of exports. Coffee and rice not in the husk exported before the war ceased to be exported, the former because of smaller availabilities of Indian coffee and the latter because of the growing food deficits in India. Manganese ore and mica also were not exported to Canada because of short supply and the high priority for exports given to the principal customer, the U.S.A. Exports of paraffin wax had ceased even before the war after the separation of Burma. Exports of spices also ceased. The total value of exports of coir manufactures and woollen carpets and rugs was maintained. As was expected, there was greater concentration in the export trade on important industrial raw materials needed in war industries, although supplies were short in India. Castor oil, when supplies were available, groundnuts, and lac were exported in very much larger quantities than before the war. Chrome iron ore, an important strategic material, was exported to Canada for the first time during the war years in substantial quantities. While leather exports to Canada before the war were negligible, small quantities of leather were exported in wartime presumably to enable the Canadian boots and shoes industry to fulfil essential war contracts. It is interesting to note that the Canadian demand for both tea and jute manufactures—India's staple exports accounting for 75 per cent of the total value of exports to Canada in war years—was fairly inelastic, rising export prices being reflected in the rising total values of exports taken as a whole. It is also interesting to note that there were large exports of dried fruits (cashew kernels and other dried fruits). Cashew kernels had figured in India's pre-war export trade with Canada. They were needed for the armed forces in large quantities during the second World War. The demand created in wartime has persisted, and cashew kernels have become an important dollar-earner in recent years.

The trend of India's trade with Canada after 1947-48 has been profoundly affected by the hard currency difficulties experienced by India and by Canada's own balance of payments crisis to which attention was drawn in the earlier part of this chapter. Measures taken in countries of the sterling area to conserve dollars have cut into Canada's preferential advantages in the Commonwealth markets. Increasing industrialisation in India under the shelter of protection has imposed a limit on the expansion of some of the Canadian exports to India. The growth of Canada's home market and of the temporary non-competitive markets abroad during the early post-war years of worldwide shortages have no doubt given Canada's industries a sufficient volume of output to ensure economical operation.

Canada has also faced during the last three years price competition in a buyer's market in India as elsewhere. Moreover, the one important staple of Canadian exports, viz. automobiles, has been seriously affected by dollar-saving import restrictions. On the whole, during the years 1947-50 the basic trend of Canadian exports to Commonwealth countries, except the U.K. and Newfoundland, has been downwards.

During these three years, India, however, made exceptionally heavy purchases in Canada of wheat, locomotives, and railway equipment. The pattern of Indo-Canadian trade as indicated by the following comparative tables clearly brings out these trends.

Principal Imports from Canada

(Value Rs. lakhs)

	1949-50	1950-51	1951-52
(1) Wheat	903	710	1051
(2) Spirits	1	—	2
(3) Railway locomotive engines and tenders and parts	496	257	3
(4) Paper mill machinery	—	53	19
(5) Aluminium (unwrought)	—	48	13
(6) Copper (unwrought)	85	147	82
(7) Rails, chairs and fishplates including those for railways	104	47	—
(8) Printing paper	72	62	120
Total including others	22,52	18,29	18,73

Principal Exports from India
(Value Rs. lakhs)

	1949-50	1950-51	1951-:
1. Cashew kernels	17	13	20
2. Fruits and vegetables	17	19	28
3. Shellac	9	10	6
4. Manganese ore	5	10	16
5. Mica	8	9	22
6. Castor oil	—	9	4
7. Groundnut oil	—	71	104
8. Groundnut seed	54	84	82
9. Pepper	70	79	86
10. Tea	470	429	431
11. Raw cotton	4	—	—
12. Jute gunny bags	—	—	—
13. Jute gunny cloth	361	375	658
14. Wool carpets and rugs	41	34	67
Total including others	11,02	13,65	16,24

An analysis of the total value of India's exports to Canada during the last three years shows a rising trend. If the uptrend in the first three post-war years is taken in conjunction with it we find a steady upward trend covering the entire post-war period. This is largely explained by the rise of export prices. For example, the total value of exports of cashew kernels, groundnut seeds, gunny cloth, castor oil, pepper, and tea increased as the result of the rise of prices rather than an increase in the volume of exports. It is only in the case of two important strategic materials, viz., manganese ore and mica, that we find considerable increases in quantities exported. It is interesting to note that black pepper has become an important item of export to Canada. Dried fruits and vegetables now occupy a much more important position in the export trade with Canada than they ever did before. The same remarks apply to groundnut seed and groundnut oil as well as mica and manganese ore.

A few comments may now be made on India's balance of trade with Canada. Traditionally, India had an active balance of trade with Canada. It was only in the exceptional year 1928-29 that the total value of imports from Canada exceeded the total value of exports to Canada by about Rs. 1½ lakhs. The position was radi-

cally transformed during the war and the post-war years. As the following table shows, in six out of ten years taken into account India incurred substantially heavy deficits in her balance of trade with Canada. If an average is struck the deficit would be at the rate of Rs. 150 lakhs per annum for the whole of this period.

INDIA'S BALANCE OF TRADE WITH CANADA

(Active + or Passive — in Rs. lakhs)

1941-42	— 26	1946-47	+ 97
1942-43	—175	1947-48	+ 233
1943-44	+235	1949-50	—1150
1944-45	+261	1950-51	— 464
1945-46	—269	1951-52	— 249

The large passive balances of trade during recent years are understandable in the context of India's dependence upon the Western Hemisphere for supplies of wheat to ward off hunger. These adverse balances have required compensatory financing in the form of dollar credits which India has obtained and the dollar releases permitted as part of the periodic liquidation of India's sterling balances.

CHAPTER 14

THE UNITED STATES OF AMERICA

AS we said in the beginning of the last chapter, the United States has been a latecomer in the field of trade with the Far Eastern and Pacific region. This has been due to several reasons. The United States' interest in the export trade until recently has been very different from that of countries which have dominated the foreign trade of this region. The latter must sell abroad to obtain imports which are the very basis of their existence. The United States with its vast resources of goods and manufacturing power has been concerned more with fostering and protecting the development of domestic resources than with securing supplies of goods from overseas. There are a few imported goods, mostly primary commodities (many of which are imported from the tropics) the loss of which would seriously affect the United States' economy, but there has never been any question of the United States affording to purchase them in required quantities. Her interest in the export trade is, therefore, primarily to find markets for the surplus production (over domestic requirements) of primary commodities like cotton, wheat, and tobacco and of certain classes of unmanufactured goods in respect of which export markets abroad afford economies of scale sufficient to offset high labour costs.

This objective of export trade was not of much significance probably before 1928. Until then the U.S.A.'s main preoccupation was the development of productive power on the basis of a large home market. Between the beginning of the present century and 1929 the national income of the United States increased by 2¼ times. By 1928 her interest in the export trade had, therefore, assumed a dynamic character. The second World War witnessed an amazing development of the U.S.A 's economic potential. By 1939 the level of production in the U.S.A. which had fallen to one-half in 1932, as compared with 1929, recovered to the 1929 level. During the war it reached a level which was twice as high as the 1939 level. It fell again after the war, but the wartime peak was reached again in 1950.

This tremendous rise of productivity has been based on a high

level of supplies moving overseas on the basis of normal commercial transactions and, to a considerable extent, also on the basis of lend-lease and mutual aid shipments in wartime and loans and gifts after the war. The old barriers to trade have either been swept away or proved ineffective. Whether this trend will establish itself as a long-term trend is a matter of doubt and will depend upon the extent to which the pre-war flow of dollar funds to this region can be ensured without abnormal unilateral transfer of dollar funds to this region and/or to the United Kingdom and Europe with which most of the countries of this region, for historical and other reasons, are closely linked by ties of trade based on common currency arrangements and facilities of merchandising, shipping, insurance, and financing of foreign trade.

The following tables of India's import and export trade with the U.S.A. in the year 1900-01 show that as early as the first year of the present century, the trade was spread over quite a number of categories on either side and was more diversified than many people would imagine.

INDIA'S IMPORTS FROM THE U.S.A. 1900-01

		Rs.
1.	Carriages and carts	1,79,844
2.	Clocks and watches	1,90,749
3.	Cotton piecegoods	16,57,196
4.	Drugs, medicines and narcotics	8,05,555
5.	Grain and pulses	6.64,059
6.	Hardware and cutlery	3,88,273
7.	Instruments, apparatus, appliances	3,54,560
8.	Liquors	2,26,563
9.	Machinery and millwork	3,62,394
10.	Iron	7,28,167
11.	Steel	8,34,245
12.	Mineral oils (mostly kerosene)	48,00,641
13.	Railway plant and rolling stock	4,85,578
	Total including others	1,24,61,989

INDIA'S EXPORTS TO THE U.S.A. 1900-01

		Rs.
1.	Apparel	1,65,106
2.	Caoutchouc (India-rubber)	4,96,780
3.	Saltpetre	6,96,675

4. Coir manufacture	...	1,16,829
5. Drugs, medicines, narcotics	...	1,18,071
6. Indigo	...	34,32,368
7. Hides and skins	...	2,93,63,585
8. Raw jute	...	1,17,28,600
9. Gunny cloth	...	18,55,000
10. Gunny bags	...	1,71,47,358
11. Lac	...	33,15,910
12. Mica	...	4,12,747
13. Coconut oil	...	4,89,045
14. Spices	...	2,47,612
15. Tea	...	6,29,241
16. Wood	...	2,23,698
17. Wool manufactures	...	7,13,367
Total including others	...	7,21,70,140

Readers may think that while today the U.S.A. exports to India automobiles, half a century back she exported to India carriages and carts. But before 1905 the statisticians of the Government of India included motor cars and motor cycles under the head 'Carriages and Carts'! Whereas today India imports Swiss watches and clocks, half a century back they were also imported from the U.S.A. The most important commodity in terms of total value imported was kerosene oil, a commodity of potential mass consumption in a country in which people had so far been using vegetable-oil lamps. Those were the days when the mineral oil resources of Burma, South-East Asia, and the Middle East still awaited better exploitation.[1]

The commodity next in the order of importance was cotton piecegoods. British textiles had not yet completely monopolised the Indian market.[2] Commodities which after several decades

[1] In 1909-10 the imports of foreign kerosene oil declined by 23.4 p.c., while the quantity shipped from Burma to India increased by 24 p.c. The direct imports from the U.S.A. were, however, unaffected by the general decline. She maintained the first place amongst the countries supplying foreign oil, accounting for 64.4 p.c. of the total imports, as against 40.5 p.c. in 1908-09. She increased her shipments of kerosene oil by 21.6 p.c. in quantity and 5.6 p.c. in value. The U.S.A. was the principal supplier of bulk oil also (55.3 p.c.) and case oil (91.4 p.c.).

[2] By 1909-10 the United Kingdom was supplying 99 p.c. of grey piecegoods, 98 p.c. of the white and 93.5 p.c. of the coloured goods. The number of spindles in Lancashire had increased from 114 millions in 1901 to 131½ millions or by 15.3 p.c. in nine years. Towards the end of the first decade of the present century American cotton began to be imported into India for the local manufacture of higher counts of yarn. Direct shipments of cotton from the U.S.A. accounted for as much as 70 p.c. of the total in 1908-09.

became important staples of the U.S.A's export trade with India —instruments, apparatus and appliances, iron and steel, and machinery and millwork[1] — figured in the U.S.A's exports to India in 1900-01, although the values of imports were quite small and looked almost like token imports.

India's exports to the U.S.A. in 1900-01 included, surprisingly enough, a few commodities which also became the main staples of India's exports in later decades. The most important commodities in the order of their importance were (1) hides and skins,[2] (2) raw jute and (3) gunny bags.[3] Natural indigo was a commodity which came fourth in the order of importance. Those were the days when synthetic dyes had not yet replaced vegetable dyes.[4] Lac, a raw material of the developing electrical-goods industry, came next in the order of importance. Its importance in India's export trade with the U.S.A. in later decades has never waned.

It is interesting to note that as early as 1900-01 India was exporting to the U.S.A. mica, an important industrial raw material which has since then become one of India's staple exports to the U.S.A. Manganese ore did not figure in exports in 1900-01. But during the five years ending 1909-10 manganese extraction increased considerably and exports from India went up. Americans have not shown much preference for tea, but the beverage was introduced to the American consumer in the early days of the development of the Indian tea industry, and exports showed a steady increase during the first decade of the present century. Indian woollen carpets and rugs were also known in the U.S. market as early as 1900-01.

It will be observed that the total value of India's exports to

[1] The U.S.A. exported to India in 1909-10 Rs. 14.74 lakhs worth of pipes and tubes, against Rs. 49.64 lakhs worth of pipes and tubes exported by the U.K. In hardware and cutlery the U.S.A. could not compete favourably with the U.K., Germany, Belgium and Austria-Hungary, but her share in the first decade of the present century was about 5 p.c. In 1908-09 the U.S.A. supplied India with 3 p.c. of the total imports of textile machinery.

[2] Raw skins exported included mostly goatskins. By the end of the first decade of the present century, chrome leather tanning in the U.S.A. had affected the demand for Madras vegetable tannages and encouraged larger exports of raw goatskins from other parts of India. This was really the beginning of a flourishing export trade in goatskins with the U.S.A.

[3] The U.S.A. was even in 1909-10 the largest single buyer of Indian jute fabrics, the bulk of her purchases being in the form of cloth.

[4] By 1909-10, however, natural indigo was steadily losing ground to the synthetic product.

the U.S.A. was seven times as much as the total value of India's imports from the U.S.A. in 1900-01. Such a large export surplus was not a mere accident. It was a regular feature of Indo-American trade before the first World War. Before the first World War, while Indian exports were more evenly distributed over the various geographical regions and commanded a widely spread market through the mechanism of multilateral trade, her imports were very largely derived from the U.K. As a mature borrower India had a large import surplus with the U.K. which was more than offset by the large export surplus with the rest of the world including the U.S.A.

Thus in 1913-14 India's deficit of Rs. 59 crores in her trading account with the U.K. was offset by a surplus of Rs. 25 crores with the rest of the British Empire and of Rs. 100 crores with the rest of the world, so that there was an overall surplus of Rs. 66 crores which was the counterpart of the annual unilateral transfer of funds, such as payment of interest and amortization, shipping and insurance charges, etc., in excess of new capital imports. During this year the U.S.A. contributed Rs. 17 crores to this surplus; her imports from India being Rs. 22 crores and exports to India being barely Rs. 5 crores. Thus it appears that India's substantial export surplus with the U.S.A. was part of the wider mechanism of international settlement of balances.

The first World War gave the United States of America a splendid opportunity to expand her trade with India and fill the large vacuum created by the cessation or interruption of supplies from Europe and also reciprocally offer a wide market for India's staple exports. This interesting, but forgotten, phase of the history of the trade relations between the two countries should be presented in somewhat greater detail.

IMPORTS FROM THE U.S.A.

	1913-14 £	1914-15 £	1915-16 £	1916-17 £	1917-18 £
1. Apparel	3,255	2,455	2,625	6,211	9,451
2. Clocks and watches	32,613	18,068	27,230	25,209	12,641
3. Drugs and medicines	30,979	24,983	45,521	47,701	64,344
4. Glass and glassware	11,602	8,454	34,736	52,700	12,210

	1913-14 £	1914-15 £	1915-16 £	1916-17 £	1917-18 £
5. Hardware	254,817	155,043	291,750	392,087	506,715
6. Instruments, apparatus and appliances	96,768	47,754	79,088	135,355	220,440
7. Liquors	41,259	35,197	44,189	51,985	68,021
8. Machinery & millwork	168,108	172,779	190,567	278,664	655,674
9. Metals and ores	302,167	387,758	1,655,701	1,654,790	2,316,212
10. Motor cars and cycles	154,669	90,660	390,315	973,379	360,121
11. Oils	1,540,649	1,647,059	1,670,127	2,073,666	1,621,056
12. Provisions and oil-man's stores	32,669	40,551	50,200	130,630	371,263
13. Rubber manufactures	1,268	2,325	23,945	48,063	94,937
14. Cotton piecegoods (grey)	167,621	155,566	227,686	162,366	110,570
Total including others	3,193,579	3,119,951	5,247,410	7,303,872	7,875,854

Exports to the U.S.A.

	1913-14 £	1914-15 £	1915-16 £	1916-17 £	1917-18 £
1. Saltpetre	22,121	12,572	12,730	16,466	19,157
2. Coir manufactures	39,210	37,887	38,241	25,927	45,216
3. Dyeing and tanning materials	70,593	74,347	345,397	351,375	428,716
4. Grain, pulses, flour	10,992	23,727	7,383	55,145	77,165
5. Gums and resins	16,815	15,501	12,488	36,784	54,181
6. Raw hides	697,804	846,235	1,500,615	2,571,718	390,529
7. Raw skins	1,668,202	1,322,071	1,783,845	4,023,268	2,592,413
8. Lac	587,720	560,866	718,842	1,459,292	1,821,635
9. Tanned or dressed skins	203,041	173,321	480,555	826,504	204,443
10. Metals and ores	118,892	89,055	61,390	128,936	82,375
11. Seeds	205,660	162,535	175,366	277,742	237,870
12. Tea	68,798	86,301	127,566	109,323	682,616
13. Raw jute	2,457,009	886,184	1,443,959	2,091,161	1,359,316
14. Jute manufactures	7,826,467	6,733,749	6,735,136	8,111,200	11,461,403
Total including others	14,518,894	11,561,669	14,098,170	20,799,568	20,307,229

The impact of the war on India's import trade with the U.S.A. was felt with full force only in 1915-16. It would be interesting to set the imports of important commodities from the U.S.A. in a longer perspective.

Imports from the U.S.A.
(£ 1000)

	1907-08	1913-14	1915-16
Inron and steel	470	282	1600
Cotton piecegoods	80	173	257

	1907-08	1913-14	1915-16
Hardware	105	255	292
Instruments	43	97	79
Mineral oil	1,140	1,540	1,670
Motor cars	—	140	347
Machinery & millwork	140	168	191
Spirit	27	41	43
Clocks and watches	27	33	27

The two directions in which the United States made most rapid progress, as far as imports were concerned, were the iron and steel trade and the trade in motor cars and vehicles. The increase in the imports of 'rubber manufactures' (rubber tyres and tubes) from the U.S.A. (and also Japan) was also a noteworthy feature. The dearth of iron and steel imports from the U.K., Belgium, and Germany enabled the U.S.A. to increase her exports to India by 420 per cent in 1915-16 as compared with the pre-war year. In respect of other commodities the U.S.A. made an important contribution to the relief of domestic shortages of essential goods.

During the entire period of the first World War, India's exports to the U.S.A. also expanded in a remarkable manner. A considerable part of India's exports to the continent of Europe was diverted to the U.S.A., and India did not face the problem of burdensome surpluses as the result of the stoppage of trade with continental Europe. The following table presents it in a long-term context.

INDIA'S PRINCIPAL EXPORTS TO THE U.S.A.
(£ 1000)

	1907-08	1913-14	1915-16
Indigo	20	8	245
Raw hides	204	498	1,501
Raw skins	1,337	1,668	1,784
Lac	896	588	719
Tanned hides and skins	234	207	481
Vegetable oil	21	63	111
Castor seed	—	204	160
Pepper	15	46	122
Tea	63	68	128
Raw jute	1,303	2,457	1,444
Jute gunny bags	536	1,008	599
Jute gunny cloth	3,940	6,816	6,136

In 1918-19 exports to the U.S.A. were increasingly concentrated on raw and manufactured jute, raw hides and skins and shellac, which accounted for as much as 92 per cent of the total

value of exports as against 86 per cent in the previous year. Rise of export prices contributed largely to the increase in the total value of exports to the U.S.A. in 1918-19. For example, in the case of gunny cloth, while the quantity exported decreased, the value increased by Rs. 20 crores on account of very much higher prices.

After the end of the first World War, the U.S.A. faced a steady contraction of her export market in India owing to the severe competition offered by the U.K., continental countries of Europe and Japan. The comparatively quick economic recovery of Europe enabled the European countries to recapture their old and established markets in India.

DIRECTION OF INDIA'S IMPORT TRADE
(Crores of Rupees)

	U.K.	Europe	Japan	U.S.A.	Total value of exports to the U.S.A.	India's balance of trade with the U.S.A.
1913-14	117	30	5	5	22	+ 17
1919-20	105	8	19	25	49	+ 24
1920-21	205	28	26	35	38	+ 3
1921-22	151	23	14	22	26	+ 4
1922-23	140	29	14	13	35	+ 22
1924-25	133	39	17	14	35	+ 21
1925-26	115	38	18	15	40	+ 25
1926-27	111	47	16	18	34	+ 16
1927-28	119	48	18	20	37	+ 17

It is easy to explain an important fact disclosed by the above table, viz., the high level of American imports into India in 1919-20 and 1920-21. The abnormal conditions of the war period governing India's foreign trade continued well into 1919-20. Revival of British and continental competition was well under way in the year 1920-21. This year however, being a year of the post-war boom, the total value of imports increased all round, from the U.K. by Rs. 100 crores, from Europe by Rs. 20 crores, from Japan by Rs. 7 crores and from the U.S.A. by Rs. 10 crores. In fact the total value of imports from the U.S.A. reached a peak of Rs. 35 crores which was once again reached only in 1941-42 under the exigencies of a second global war.

But European countries re-entered the Indian market as serious competitors of both the U.S.A. and Japan. Imports from Germany included alizarine and aniline dyes, iron and steel, machinery and millwork, glass and glassware, etc. Belgium resumed her exports of iron and steel. France increased her exports to India by Rs. 2 crores. Italy increased her exports to India by Rs. 3¾ crores and sold in the Indian market motor cars and rubber tyres, glass and glassware, and apparel. Holland began to supply India with electrical instruments. The full impact of European competition was, however, felt in the years of the post-war depression.

The trends of trade analysed above continued in subsequent years even during the period of relative expansion of India's import trade. The table given above clearly shows divergent trends in the case of the four principal competitors in the Indian market. Between 1922-23 and 1928-29 the total value of imports from the U.S.A. slowly increased from a low of Rs. 13 crores to a high of only Rs. 20 crores in 1927-28. Japan also improved her position from a low of Rs. 14 crores to a high of barely Rs. 18 crores. Thus Japan and the U.S.A. occupied a similar position in the Indian market both absolutely and relatively. In the case of Europe, the expansion of her exports to India was much more, and even remarkable, if we take the year 1919-20 as the base year of comparison and take into account an increase of Rs. 40 crores in the total value of imports from Europe between 1919-20 and 1927-28. In the case of the U.K. we observe, however, a divergent trend—a steady and almost uninterrupted decline of Rs. 21 crores in the aggregate between 1922-23 and 1928-29 and of Rs. 86 crores in the aggregate if we take the post-war boom year of 1920-21 as the base year. It is this trend which helps us to realise the significance of Imperial Preference which became the cornerstone of the U.K.'s trade policy in relation to India during the depression of the 'thirties when competition in a falling Indian market assumed a cut-throat character.

Before we study the trend of Indo-American trade in the 'thirties it is, perhaps, necessary to sum up (*a*) the position of the U.S.A. as a supplier and buyer in the Indian market and (*b*) the

balance of payments situation as it stood before the depression. By 1929 the U.S.A. was supplying India with a large range of important industrial products and raw materials which have formed important staples of her export trade with India in later times, such as rubber and manufactures, leaf tobacco, raw cotton, cotton fabrics, petroleum and products, iron and steel-mill products, advanced manufactures of iron and steel, electrical machinery and apparatus, industrial machinery, typewriters, automobiles, parts and accessories and medicinal and pharmaceutical products. On the other hand, the U.S.A. was importing from India the traditional commodities like goat and kid skins, edible nuts, tea, crude lac, shellac, castor beans, jute and jute butts, jute bagging for cotton, gunny cloth, jute burlap, jute bags or sacks, carpet wool, carpets and rugs and managanese ore.

It is interesting to note that *in 1927-28 the export surplus in money terms was exactly the same as in 1913-14.* Thus, by and large, the balance of payments situation was such as to fit into the normal pre-war mechanism of the multilateral settlement of international payments involving India, Europe, the U.K., the U.S.A., and Canada. The position, as we shall see below, was radically changed in the 'thirties.

DIRECTION OF INDIA'S IMPORT TRADE
(Crores of Rupees)

	U.K.	Europe	Japan	U.S.A.	Total value of exports to U.S.A.	India's balance of trade with U.S.A.
1932-33	49	29	20	11	10	— 1
1933-34	48	25	16	7	14	+ 7
1934-35	54	25	21	8	13	+ 5
1935-36	47	25	19	8	16	+ 8
1936-37	44	23	19	7	19	+ 12
1937-38	52	33	22	13	19	+ 6
1938-39	46	28	15	10	14	+ 4

The terrific impact of the depression on India's trade with the U.S.A. is seen to best advantage, if we compare the figures for 1932-33 with those for 1927-28. American sales in the Indian market in 1932 and during the early months of 1933 were restricted as the result of competition of countries favoured by currency depreciation. Following the increase in the value of the

rupee in terms of the dollar after the suspension of gold payments by the U.S.A. in April, 1933, the fall in the external value of the dollar to the old par rate in May-June-July 1933, and the subsequent further decline to $ 5.46 to £ 1 in November, 1933, there was a substantial increase in the shipments of a number of American products. The number of passenger cars and motor trucks and buses imported into India from the U.S.A. increased by more than 100 per cent. Electric lamps, electric refrigerators, and typewriters showed increases in quantities ranging between 39 per cent and 66 per cent. Imports of capital goods, like leather belting and iron pipe and fittings and also petroleum and lubricants, increased. Keener American competition was reflected in the import trade in machinery, hardware and tools, instruments and chemicals.

The stimulus of the devalution of the dollar lasted in 1934. Exclusive of raw cotton, America's total exports to India increased by 55 per cent in 1934. India's exports to the U.S.A. advanced by 26 per cent in 1934. Although a considerable part of the increase was due to the higher level of export prices, yet American purchases of a number of commodities were larger in quantity than in 1933. High export prices reacted on quantities purchased in the case of burlap, tea, carpet wool, and shellac. But exports of raw cotton doubled in quantity, mica exports to the U.S.A. were slightly over three times larger, and there were substantial increases in respect of cashew nuts, pepper, jute bags, and manganese ore.

By the year 1936 *the ratio of exports to imports in the U.S. trade with India was the same as in 1929*, there being a decline in the value of exports to India and a rise in the value of imports from India. The expansionary effect of the devaluation of the dollar on the U.S.A.'s export trade seems to have been neutralised somewhat by a rise in costs particularly as the result of the implementation of the National Recovery Programme. It must also be noted that throughout the 'thirties Japanese and European competition was well under way.

The table given above shows a spurt of imports from the U.S.A. in 1937-38. During this year the U.S.A. was able to take full advantage of better economic conditions in India. But the spurt in imports is mainly explained by the increase in the imports of raw cotton, although we must also take into account the

increase under all the items of America's staple exports to India (except leaf tobacco) and particularly the increase in the total value of imports of motor vehicles. The spurt in imports was matched by a spurt in India's exports to the U.S.A. in response to the rearmament and stockpiling boom which had already been generated in anticipation of the second World War.

Our survey of the trends of Indo-American trade cannot be complete if we did not discuss the bearing on these trends of Imperial Preference. Without going too far afield we can conclude on the basis of the analysis presented in this chapter that we should not exaggerate the effects of Imperial Preference on Indo-American trade. It is clear that the declining trend of the United Kingdom market in India was not arrested by the Ottawa preferences. Without preferential advantages the United Kingdom market in India would have contracted still further. But it is highly probable that Japan and the continental competitors of the U.S.A. in the Indian market would have gained the market which would have been lost by the United Kingdom. Moreover, the stake of the U.S.A. in the Indian market should not be judged merely by the volume and value of the U.S.A.'s direct trade with India. As we have already pointed out in the previous chapter, in view of the closer economic integration between the Canadian and the United States economies, the U.S.A. has benefited considerably by the increasing flow of trade between Canada and Commonwealth countries like India. In particular, the U.S.A. has reaped to some extent the advantage of gaining indirect access to Commonwealth markets sheltered by tariff preference.

Attention may now be drawn to an important aspect of India's trade relations with the U.S.A. during the period of the great depression, viz., the striking diminution of the size of India's traditional export surplus with the U.S.A. The foregoing table shows an import surplus of Rs. 1 crore which India had in relation to the U.S.A. in 1932-33. This was no doubt an abnormal phenomenon in a very abnormal year. But it seems that the *adverse shift* in the balance of trade reflected in the comparatively small size of India's export surplus after 1932-33 was a trend which had a wider significance. This aspect of the question requires to be discussed in somewhat greater detail, because it has a bearing on the problem of India's dollar shortage in the context

of the wider re-orientation of India's trade and balance of payments and links up with India's post-war foreign economic policies.

It will be noted that India's exports to the U.S.A. in 1937-38 were Rs. 3 crores less in value than in 1913-14. But the value of American goods imported into India increased from Rs. 5 crores in 1913-14 to Rs. 13 crores in 1937-38. On the whole, India's export surplus with the U.S.A. declined from Rs. 17 crores in 1913-14 to merely Rs. 6 crores in 1937-38. But this fact has to be studied in the context of the remarkable re-orientation of India's trade balance in relation to the U.K. during the inter-war period.

Owing to the post-war reduction in India's imports from the U.K. and some increase in the U.K.'s imports from India, India's adverse balance with the U.K. had been reduced to Rs. 36 crores in 1929-30, the last pre-depression year. The sensational fall in imports during the first three years of the slump reduced the adverse balance still further to Rs. 11 crores in 1932-33. Then came the Ottawa Agreement which stimulated India's exports to the U.K. without causing any corresponding rise in her imports. India's imports from, and exports to, the U.K. exactly balanced at Rs. 48 crores in 1933-34. India had a small export surplus of Rs. 5 crores in 1934-35 and of Rs. 2 crores in 1935-36. In 1936-37 the export surplus attained the record figure of Rs. 16 crores and declined slightly to Rs. 12 crores in 1937-38. The decline in imports from the U.K. during the inter-war period is explained by the fact that the British cotton textile industry lost ground to Indian and Japanese competition. The remarkable re-orientation of India's balance of trade has to be largely explained by the breakdown of the multilateral trading system during the great depression of the 'thirties, as the result of which India was called upon to effect a large annual unilateral transfer of funds by means of, not only gold exports, but also direct transfer, on the basis of an export surplus with the U.K., her creditor. During the eight years preceding World War II India exported gold amounting to $ 1,400 million (of the 1934 gold parity) out of private hoards.

An important incidental consequence of this development was restriction of India's imports from the U.S.A. among other countries outside the British Empire. But we must note that the outstanding feature of India's balance of trade situation in

1936-37 and 1937-38 was that, with the exception of Burma, India enjoyed an export surplus with every group of countries with which she traded.

The problems of Indo-American trade have to be understood in the context of a balance of trade situation which is now basically different. Before World War II, although Burma was separated from India, yet she still belonged to the same fiscal unit, and the trade with Burma was still regarded as coasting trade, the excess of India's imports from Burma over her exports being mainly accounted for by India's heavy imports of Burmese rice, oils and timber. Burma and India no longer belong to the same fiscal unit. Furthermore, owing to the emergence of Pakistan as a separate fiscal unit India's dependence on other countries for food and essential raw materials has increased and it has become more difficult for India to adjust her imports to a higher level of exports, because the latter have also changed their character in many ways.

An objective account of this new situation with special reference to the significance of Indo-American trade can be given in terms of the trend of economic events during World War II and the post-war years. Before we discuss them it will be necessary to call the attention of the reader to the characteristic orientation which the trade balances of the tropical Asian economies had undergone under a system of multilateral trade and as the result of which dollar funds flowed in such a way as to obviate the possibility of a dollar crisis for tropical Asian economies including India. This will form the necessary background to a proper study of a stable structure of Indo-American trade which would answer the mutual needs of India and the U.S.A. in the coming years.

As a source of supply of tropical products, tropical Asia (India, Pakistan, Burma, and Ceylon and South-East Asia) has been more important than tropical Africa and tropical America taken together. The export trade of tropical Asia underwent fundamental changes due to the development of modern trade after the middle of the 19th century. India, which had been an exporter of specialized manufactured goods, became an exporter of specialized agricultural commodities. Thus tea became an important

export staple of Ceylon and India. As the international trade in coffee and sugar expanded, the export of jute and jute bags from India increased. The development of the production and export of plantation products like rubber, and of mining products like tin of South-East Asia, is of more recent date, and since the early part of this century South-East Asia has been placed prominently on the world's economic map as the result of both intensive and extensive foreign investment in this region.

It is important to observe the direction of trade of tropical Asia so as to realize the significance of its position in the pattern of pre-war multilateral trade. The following tables illustrate the trend in the case of India, Pakistan, Burma and Ceylon as a whole and South-East Asia respectively.

DIRECTION OF TRADE[1]

INDIA, PAKISTAN, BURMA & CEYLON

	Imports		Exports	
	1928	1938	1928	1938
Percentage shares from (to)				
United Kingdom	45	36	18	29
Rest of Europe	18	20	32	25
U.S.A.	6	8	13	11

SOUTH-EAST ASIA

	Imports		Exports	
	1928	1938	1928	1938
Percentage shares from (to)				
United Kingdom	12	11	5	7
Rest of Europe	21	22	18	23
U.S.A.	13	17	20	26

The outstanding fact which emerges from this table is that the chief market for South-East Asia's exports was the United States of America. The trade of the Philippines with the U.S.A. and that of Indo-China with France (like the trade of India-Pakistan-Burma-Ceylon with the U.K.) expanded during the depression on the basis of tariff preference. The exports of British Malaya and the Netherlands East Indies expanded on the basis of a world market for commodities like tin and rubber which found a

[1] *Network of World Trade* (League of Nations, 1932), Table 30.

limited market in the metropolitan countries themselves. The U.S.A. absorbed 42 per cent of British Malaya's exports in 1928 and 30 per cent in 1938. The U.S.A. like other industrialized countries, was more important as a buyer than as a seller in this region. Consequently the whole of South-East Asia had an export surplus to the U.S.A. of $ 290 million in 1928 and $ 110 million in 1938. In view of the fact that the U.S.A.'s capital investments in tropical Asia has been small, the bulk of the export surplus of India and other countries of this region in relation to the U.S.A. has been used for the purpose of indirect transfer of unilateral payment to European investors.

The pre-war flow of dollar funds has been briefly described by the U.S. Department of Commerce as follows:[1]

"Before the war there was a net outflow of dollars from the United States to the European dependencies, mainly because of our purchases of such products as rubber, tin, tea, cocoa and copra. These funds were generally paid by the dependencies to Europe for merchandise, services, or income on investments. From Europe these funds moved back to the U.S.A. directly or by way of Canada or some of the other non-European countries which had an import surplus with the United States. Our transactions with Latin America as a whole were largely balanced, although some of these countries obtained funds from Europe, which they paid to the U.S., others used excess dollars received from the U.S. to make payments to Europe."

It is evident from this account that tropical Asia even during the worst years of the depression had no dollar problem. It earned sufficient dollars for its 'current needs', which under a colonial regime were met largely by low-income consumers' goods for which the American economy was not adapted, so that its dollar earnings were largely utilised by the metropolitan powers for transferring the yield of European investment in this region in the form of American goods and services.

We shall now turn to a review of the next stage of the development of Indo-American trade relations, which started with the second World War.

[1] R. L. Sammons, *Current Business*, November, 1948.

During the second World War, India's foreign trade was largely canalized to the British Empire and to the United States of America, which was one big centre of the United Nations' war effort in a global war. The development of Indo-American trade in wartime is illustrated by the following table.

INDIA'S TRADE WITH THE U.S.A.

(Crores of Rs.)

	Exports (including re-exports)	Imports	Balance
1941-42	54	35	+ 19
1942-43	30	19	+ 11
1943-44	49	19	+ 30
1944-45	57	52	+ 5
1937-38	19	13	+ 6

The increase in the total value of India's export and import trade with the U.S.A., as compared with pre-war, has to be corrected by the rise in the prices of both exports and imports. A significant fact, however, is that India's export surplus, which had reached the wartime peak of Rs. 30 crores in 1943-44, came down to Rs. 5 crores in 1944-45 as the result of a greater proportionate rise in the value of imports as compared with the rise in the value of exports which was as high as Rs. 57 crores.

It must be noted that the trade on government account, which became large and increasingly important owing to war transactions, is excluded from the table given above. It is not possible to trace the magnitude of trade on government account. But it is certain that if that were taken into account the contribution of the U.S.A. to India's foreign trade would be very much larger than is indicated by the above table.

It would be interesting to note the relative share of the U.S.A. in India's imports and exports in wartime.

INDIA'S IMPORTS

(Percentage Shares)

	U.K.	U.S.A.
1941-42	21.1	20.1
1942-43	26.8	17.3
1943-44	25.1	15.8
1944-45	19.8	25.7

INDIA'S EXPORTS (including re-exports)
(Percentage Shares)

	U.K.	U.S.A.
1941-42	32.3	19.7
1942-43	30.6	14.8
1943-44	30.4	20.2
1944-45	29.0	21.2

Judged by these figures which relate only to private trade, the share of the U.S.A. in India's imports increased considerably, and if government trading is taken into account the share would be much larger. The U.S.A. absorbed about one-fifth of India's exports on private trade account and a much larger proportion if we include trade on government account.

The following tables illustrate how the share of the U.S.A. in India's export and import trade has fluctuated in respect of certain important commodities.

IMPORTS
(Percentage Shares)

	Machinery	Hardware	Instruments	Motor vehicles
1941-42	31.3	39.9	26.2	...
1942-43	21.4	22.8	18.3	63.4
1943-44	16.7	37.2	25.2	80.7
1944-45	25.0	28.3	26.1	76.3

	Cotton manufactures	Silk manufactures	Artificial silk manufactures	Liquors
1941-42	7.1	1.2	1.7	9.2
1942-43	14.4	12.2	...	6.3
1943-44	80.7	4.7	12.9	14.6
1944-45	4.9	66.7	10.3	15.2

	Mineral oils	Paper and pasteboard	Chemicals etc.	Provisions and oilman's stores
1941-42	...	45.5	...	9.4
1942-43	17.3	36.0	21.5	14.1
1943-44	14.6	52.3	19.0	11.7
1944-45	35.4	44.3	17.3	19.9

It appears from these statistics that the U.S.A. became an increasingly important supplier of capital goods, important industrial raw materials, consumer's goods like cotton and silk textiles, and high-income goods belonging to the category of luxuries and semi-luxuries. The share of the U.S.A. increased almost all along the line in respect of many classes of imported goods.

EXPORTS
(Percentage Shares)

	Tea	Raw jute	Jute manufactures	Raw cotton	Oilseeds	Hides and skins
1941-42	5.9	29.1	38.6	12.7	3.0	34.6
1942-43	5.8	58.1	26.3	1.6	0.2	35.4
1943-44	15.7	29.3	34.8	14.5	0.8	46.8
1944-45	14.5	20.6	32.4	13.8	0.7	53.1

The U.S.A.'s share in India's exports remained comparatively inelastic except in two commodities, viz. tea and hides and skins.

These inferences drawn from the statistics of private trade would be subject to the limitation that lend-lease shipments and trade on government account which overshadowed private merchandise trade in wartime are not taken into account. If these could be brought into the picture the significance of the Indo-American trade would be heightened considerably.

India in common with the rest of the countries of tropical Asia is now faced with a serious dollar problem as the result of the disruption of the pre-war multilateral trading system which had at one time created a pattern of spontaneous flow of dollar funds suited to the dollar requirements of this region. As already explained, in former times Europe was able to meet its trade deficit with the U.S.A. through dollars received from third countries (which included India and other countries of tropical Asia) which they in turn earned out of their export surplus with the U.S.A. Since the war the flow of dollars has been reversed. Europe now pays out dollars to these countries.

The possible solution to the dollar problem in this context is that both Europe and the 'overseas' countries, including countries of tropical Asia, should reduce their dollar import surplus and/or increase dollar earnings received from third countries who have an export surplus with the U.S.A. So long as that is not possible, dollars must flow from Europe to meet the dollar deficit of overseas countries, unless the strain on Europe's dollar balances is relieved by the direct flow of loans and grants to countries of tropical Asia.

Ultimately, the true solution lies in the evolution of a pattern of multilateral trade with the U.S.A. as the terminal point in the

various transfer routes. It is beyond the scope of this chapter to discuss this possibility in detail. But there is no doubt that such a development would depend on the realisation by the U.S.A. of her responsibility as the greatest creditor country, which means developing her import capacity to the same extent as her export capacity.

During the post-war period, India no longer enjoyed an export surplus with the group of countries with which she traded with the exception of Burma. The position was just reversed. The table on p. 287 illustrates this trend.

The overall balance of payments position requires to be analysed in the light of India's hard currency deficit and the main causes which explain it. The major items in the balance of payments which are worth considering in this connexion are merchandise and Government expenditure (merchandise and services). The position in respect of these items was as follows in 1946, 1947, and 1948 :

HARD CURRENCY COUNTRIES — BALANCE OF PAYMENTS

MERCHANDISE

(Lakhs of Rs.)

	1946	1947	1948
Receipts	88,72	1,19,06	1,40,34
Payments	42,30	1,44,26	1,17,91
Net	+46,33	—25,20	+22,43

GOVERNMENT EXPENDITURE

	1946	1947	1948
Receipts	63	..	1,18
Payments	49,39	49,47	61,59
Net	—48,76	—49,47	—60,41

It is evident from these tables that the position as regards the balance of payments in respect of mechandise during the post-war years was not so intractable as many people imagine. With the exception of 1947, in which import control was relaxed, there was a sizable hard currency surplus in 1946 and 1948. But the key to the whole situation lay in the hard currency deficit on government account.

The most important item of merchandise imported on government account was food. The net imports of food into India before 1939 were of the order of 0.5 million tons, but by the end of the war the import requirements rose to nearly five to six times this

Direction of Trade (Private and Government) according to Currency Areas

(Lakhs of Rupees)

Area or countries	1938-39 Imports	1938-39 Exports*	1938-39 Balance	1947-48 Imports	1947-48 Exports	1947-48 Balance	1948-49 Imports	1948-49 Exports	1948-49 Balance
I. Sterling Area (excluding Pakistan) ...	89,65	89,39	— 26	187,28	195,81	+ 8,53	230,46	177,33	—53,13
Percentage ...	58	53		42	48		44	42	
U.K. ...	48,73	58,37	+ 9,64	129,10	106,52	—22,58	152,13	98,26	—53,87
II. Other soft currency countries	19,96	30,12	+10,16	76,73	78,65	+ 1,92	111,01	73,27	—37,74
Percentage ...	13	18		17	19		21	17	
III. Medium currency countries	2,98	60	— 2,38	12,56	4,06	— 8,50	14,70	3,33	—11,37
IV. Hard currency countries									
(*a*) Dollar countries	11,01	20,76	+ 9,75	158,73	110,39	—48,34	120,55	106,59	—13,96
Percentage ...	7	12		36	27		23	25	
(*b*) Others ...	31,91	28,96	— 2,95	9,33	16,90	+ 7,57	18,90	16,08	— 2,82

*including re-exports.

quantity. Cereal imports from the Western Hemisphere were unknown before the war, although there was no particular problem of dollar shortage. But owing to the failure of domestic production to catch up with the increase in the demand for food, the slow recovery of Burma and Thailand which have been the traditional suppliers of rice, and the partition of the country which deprived India of important food surplus areas, India has been forced to import food from the surplus areas in the Western Hemisphere. In 1948 food imports cost India about 100 million dollars which was nearly one-third of the total cost of food imports and two-thirds of the hard currency deficit. The other imports on government account from hard currency areas were locomotives, tractors, hydro-electric plant, etc. the financing of imports of which has been based on international loans.

While the statistics given above clearly show that the share of the dollar area in India's foreign trade has increased remarkably since 1938, a careful study of the trends will also clearly show that the severity of the dollar crisis has resulted in a replacement of dollar imports by imports derived from other currency areas, particularly the sterling area.

The stark necessity of economizing dollars has created a situation which discriminates against dollar imports much more effectively than the system of Commonwealth tariff preference, the incidence of which has now paled into insignificance. In India there is a traditional hostility to tariff preference, because the advantages of a sheltered market for India's traditional exports were never considered commensurate with the sacrifice in paying a higher price for imports resulting from a preferential tariff, apart from the fact that preference creates international ill-will. It is because of this reason that India has welcomed the reduction in tariff preference in many cases in terms of the General Agreement on Tariffs and Trade concluded at Geneva in 1947 and subsequently ratified by India. But what should be India's attitude to preference reinforced by dollar shortage?

The answer to this question hinges on the movement of the terms of trade acting and reacting on the balance of payments equilibrium.

Between 1946 and 1948 the unit value of overseas imports of Europe rose by 37 per cent, while there was only 19 per cent increase in the unit value of exports. As a result the terms of

trade in 1948 were about 10 per cent less favourable than in 1938. India took advantage of this situation. But according to the *Economic Survey of Europe in 1948* (p. 97) price trends during 1948 indicated that the deterioration slowed down or was halted in the latter part of the year. Moreover, according to the same *Survey*, "the rise in European export prices was far out of line with the rise in the prices of corresponding commodities in the United States" (p. 100). If the rise in export and import prices in Europe had corresponded to the changes in U.S. prices since 1938, the terms of trade would have been far worse for Europe, in general, and for the U.K., in particular. In fact that the terms of trade did not deteriorate more sharply than they actually did seems to have been mainly due not to the low prices paid for imports but to the relatively high prices charged for exports.

The relatively high prices charged by non-dollar countries in their foreign trade may be explained by two causes. One is the higher cost of production in Europe than in the U.S.A., which, owing to the rigidity of the cost structure, could be counteracted by the devaluation of European currencies. There was, however, another factor which has nothing to do with monetary readjustment. This is price discrimination which consists in charging high export prices not justified by costs of production or internal prices. It has been estimated that in the case of timber, pulp, and paper, export prices were 50 per cent higher than domestic prices. There was a similar substantial difference in the case of British and Belgian steel, in the case of Belgian steel the difference being as high as 100 per cent. There was also discrimination between various export markets, the export prices being higher for countries with soft currencies than for countries with hard currencies, lower for important and traditional markets than for irregular and small customers. Such inflated prices have sustained inflated cost structures and have led to uneconomic allocation of resources. There is no reason to suppose that India has not been a victim of such price discrimination, which has threatened to become a normal feature of international trade.

Enlightened economic opinion in India feels that a reasonable alignment of European prices with prices in the U.S.A. would be conducive to stable international trade. India is interested in the restoration of competition in international trade, which is the essence of what is supposed to be achieved by the Havana Charter.

India has no constraints of political affiliation. But her membership of the sterling area, her dependence on the liquidation of sterling balances with a limited degree of convertibility, and her large dollar deficit have drawn her closer into the network of non-competitive trade which, paradoxically enough, has been the basis of economic recovery in Europe in the case of countries with inconvertible currencies which have developed trade through bilateral trade agreements. In order to create an export surplus convertible into dollars and to wipe out the import surplus with countries which have access to the dollar markets, like the countries of the Middle East, the European countries should find it to their interest to seek a reasonably close alignment of their export and import prices with those of the dollar area. This can be the only long-term solution to their dollar problem.

The simultaneous devaluation of a large number of currencies of the non-dollar area in 1949 was calculated to bring about a reasonable alignment of export and import prices of countries with non-dollar currencies with those of the U.S.A. The lack of alignment and the possible realignment as the result of devaluation can be represented roughly as under:

	U.S.A.	Non-Dollar Area
		↑
Import Prices	High	Low
	↑↓	
Export Prices	Low	High
	↑	↓
Terms of Trade	Unfavourable	Favourable
		↓

Owing to the inconvertibility of non-dollar currencies freely into dollars, scarcity of dollars and bilateralism in trade, import prices in the U.S.A. were out of alignment with import prices in the non-dollar area; so were export prices in the two areas. The import prices of one area were the export prices of the other and vice versa. It follows from the respective levels of import and export prices that the U.S.A's terms of trade were more unfavourable than was justified by the rise of American productivity and that the non-dollar area's terms of trade were more favourable than was really justified. The devaluation of non-dollar currencies in relation to the dollar was calculated to move the levels of import and export prices and terms of trade in the directions indicated by the arrow marks. It was expected that ultimately there would be an alignment of import prices as well as of export

prices leading to a broader and more competitive basis of world trade and a proper alignment of the terms of trade.

One is not sure if India's position in this respect was not vulnerable. Taking the facts of the present economic situation into account, one should be inclined to favour the restoration of non-discriminatory, multilateral trade and should be interested in the integration of the dollar area with the non-dollar area into a single competing group. It is only under this condition that one may hope to see a stable structure of expanding Indo-American trade in the future.

This broad objective of the re-orientation of world trade was obscured by the outbreak of the Korean war and the buoyancy of the export trade of India and of the primary producing countries in general, which was induced by the stockpiling boom, particularly in the U.S.A. in 1950-51. The value of the stockpile objective in the U.S.A. at the close of 1950 was \$ 8,800 and the value of the stockpile on hand \$ 2,700 million. This enormous expenditure has meant pumping out of dollars into dollar-dry countries of South-East Asia. India's shellac, manganese ore, mica, castor oil and raw wool have figured in the extended list of 'strategic and critical materials' for stockpiling in the U.S.A.

The exports of these commodities increased enormously in 1950-51. In 1949-50 India had an import surplus with the U.S.A. of Rs. 14,65 lakhs which highlighted the extreme severity of India's dollar crisis. In 1950-51 this import surplus was converted into an export surplus of Rs. 98,52 lakhs. There was no doubt a drastic cut in dollar imports to the extent of Rs. 82,34 lakhs in 1950-51, as compared with 1949-50. But the total favourable shift in India's balance of trade with the U.S.A. in 1950-51 was Rs. 113,17 lakhs. This means that (Rs. 113,17 *minus* Rs. 82,84) Rs. 30,33, was contributed by a net increase of exports. The increase in the total value of exports of five 'strategic and critical materials' mentioned above contributed as much as Rs. 15,73 lakhs to the total increase of Rs. 30,33 lakhs.

In 1951-52 India was again faced with a dollar deficit in her balance of trade to the extent of Rs. 157,98 lakhs, so that the adverse shift was far more violent than the favourable shift in the previous year. During this year, while there was an increase in the total value of exports of shellac and manganese to the U.S.A. by Rs. 337 lakhs, the decrease in the American purchases of mica,

castor oil, and raw wool was Rs. 10,82 lakhs. These facts show that the inherent difficulties of the payments situation which were masked by the stockpiling boom have again asserted themselves, and the long-term problem of the stabilisation of Indo-American trade on a normal foundation still remains.

PART VI

OTHER ASPECTS OF INDIA'S ECONOMIC RELATIONS WITH THIS REGION

CHAPTER 15

OTHER ASPECTS OF INDIA'S ECONOMIC RELATIONS WITH THIS REGION

A STUDY of India's economic relations with Far Eastern and Pacific countries will not be complete without a review of the migration into some of these countries of Indian labour and capital and economic enterprise associated with them, which has accompanied the growth of India's trade relations with this region in the present century. In previous chapters we have already stated some of the significant facts bearing on this aspect of India's international economic relations. But even at the risk of repetition it will be worth while integrating the whole picture and presenting it in proper perspective in this chapter.

The particular sphere of international economic relations with which we are concerned here transcends the limits of ordinary economic intercourse and touches the national psychology motivating international economic relations at its sensitive spot. The re-orientation of India's trade relations with the neighbouring countries of the Far Eastern and Pacific region in the coming years will need not only adaptation to a new situation in which the colonial character of the trade of this region will have been profoundly modified, but also a growing realization of the fact that uncontrolled movement of labour, capital and the kind of enterprise which accompanied colonial economic development in South-East Asia in the present century, cannot answer the present-day needs of either India or the neighbouring countries. The psychological aspect of this problem is more important than the economic. Countries of this region are now in a mood which makes them allergic to anything which was associated with colonialism. In fact one may even say that a certain amount of psychological dynamite has accumulated in some of the countries of South-East Asia. In the circumstances the days of uncontrolled migration of labour, capital and enterprise into these underdeveloped countries are now definitely over.

From a broader economic point of view such a dénouement need not, however, be considered tragic. Under favourable conditions international trade, i.e., movement of commodities can be not

only a good, but even a better, substitute for movement of factors of production—labour, capital and enterprise—from one country to another. International trade takes advantage of the disparity in factor endowment in different countries and tends to lessen such disparity. The effect of international trade would thus be normally the same as the effect of factor movement, with of course, a profound difference, viz., that international trade obviates the psychological irritation sometimes caused by the inflow of alien capital, labour and enterprise, even though it might have been initially encouraged by the government of an underdeveloped country. If India takes advantage of the new opportunities of trade which are opening up (our review has shown that she has not done badly in this direction), she has every reason to be content with non-discriminatory, most-favoured-nation treatment of such labour, capital and enterprise of Indian domicile as may be permitted to enter any country.[1]

Although we are primarily concerned in this chapter with developments in the era of modern colonialism, it is necessary to point out that India's economic and cultural relations with such countries of South-East Asia as have absorbed large numbers of immigrants during the present century date back to ages shrouded in the mist of antiquity. There were centuries of Indian migration reaching out overseas from South India across the Isthmus of Kra, along the coasts of Sumatra and Java, into Lower Siam and the lower part of the Mekong delta and leaving an indelible impress on the language, culture, and religions of people living in these far-flung regions. At one time, Indian merchants and traders swarmed over these areas, and although large, exclusively Indian, colonies do not seem to have been established, yet there was great admixture of blood between Indians and the older indigenous stocks.

Dr. Dobby rightly says, "the migration to, and settlement in, South-East Asia of millions of Indian and Chinese labourers over the last fifty years or so is the modern expression of a process of

[1] There is, however, the more difficult human problem of ensuring fair treatment of Indian labour and capital which have been assimilated into the economies of some of the neighbouring countries, but cannot for various reasons be accorded 'national treatment'. This question is discussed below.

convergence which has been going on for some two thousand years, differing only in that these late migrants aimed to be temporary even though a portion of them never returned to their home countries."[1] In the past, as Dr. Dobby says, the predominantly Indian stream of migration moved east and south to a northern limit roughly running through Cambodia, Lower Siam and Lower Burma. The predominantly Chinese stream moved west and south into Cochin-China, Thailand, over the coastal areas of Malaya, Sumatra, and Java, and across the land and the sea to both Northern and Lower Burma. These broadly separate streams are also distinguishable in modern times, but while the larger concentrations of Indian emigrants are almost entirely confined to the areas which are now, or formerly were, under British rule, the Chinese emigrants have followed the traditional stream of migration irrespective of the rival colonial regimes operating in South-East Asia.

Indian emigration to Malaya in modern times was associated with the expansion of the British empire in South-East Asia for which India was the base of operations. Garrisons which moved from South India to conquer Malaya consisted of Indians. Malaya was governed as part of Bengal till 1858, and from 1858 to 1867 its administration was controlled by the India Office. Indians thus renewed their contact with Malaya after many centuries in the context of the British imperialistic expansion in Asia.

The political pattern of colonialism in Malaya was the alien system of capitalistic enterprise centred on export trade. This system was a threat to the self-sufficient seclusion of an agrarian economy. Such a process, paradoxically enough, created vast employment opportunities for emigrants to Malaya. Explanation has been sought for this paradox in the enervating climate of Malaya which sapped the economic incentive of the indigenous people and created an all-pervading atmosphere of listless indolence. This does not seem to be the whole truth. A more fundamental cause was the absence of the acute pressure of the population on the land owing to the low density of population, the population being nicely balanced with the amount of food available within the limits of the resources of a community of self-sufficient farmers and fishermen. Indian and Chinese labourers migrating from the overpopulated agricultural regions

[1] Dobby, *South-East Asia*, London, U.L.P., 4th ed., 1954, p. 393.

did not show lack of economic effort, although they worked in the same natural environment. The key to the understanding of the situation is the fact that the Indians and the Chinese were the most energetic exponents of the spirit of commercialism and competition imported into South-East Asia from Europe. It may be interesting in this connection to summarise the order of events associated with the process of economic change in Malaya. In Malaya it was the tin belt on the foothills of the western coast which was the richest and most easily accessible. The pioneer tin-mining settlements established by the Chinese *concessionaires* needed not only mining labour, but also ancillary services to provide transport of bulky tin ore and transport and distribution of food and other requirements of these settlements which had to be imported. This led to the Chinese 'tin rush', but it did not affect the self-sufficient Malayan agriculture. The traditional ways of life of the Malayans were thus not disturbed. They declined to work as miners, so that mining labour was mainly recruited from amongst the immigrant Chinese. Gradually as tin-mining developed, short railway lines connecting the tin mines with the coastal points were constructed. Later on a longitudinal railway connecting the early mining centres was built, which made it possible for tin-mining to develop rapidly along the railway line. Still later the longitudinal railway link along the west coast was extended and when it reached down to Singapore in 1909 it set the pattern for the development of Malaya's hitherto inaccessible hinterland. When eventually Malaya's plantations and the associated processing industries began to develop, they naturally gravitated to the railways. Road development followed railway development, and became an effective supplement to it, when the operation of motor transport became economical later in the present century.

The self-sufficient local agricultural communities were not disturbed by the development of plantation agriculture either. The European planters remedied the situation by importing cheap Indian and Chinese labour. Thus the rubber plantations like the tin-mining settlements, became pockets of foreign enterprise depending upon imported labour.[1] Personnel required for

[1] By 1948 rubber estates extending over an area of 2 million acres, employed 290,000 workers of whom 52 per cent were Indians and 29 per cent Chinese.

ancillary services in large plantations was also necessarily foreign. Although throughout Malaya running of shops and mercantile establishments and money-lending were almost exclusively a Chinese enterprise, yet rival Indian shopkeepers and traders also entered rubber estates with an eye to meeting the requirements of *Tamil* estate labour. It could not be long before capitalistic enterprise in the coastal belt became too powerful. Commercialisation of agriculture accentuated the differences in land values in the case of many kinds of land, or actually reversed the relative land values. As new economic activities expanded in the hinterland, imported labour penetrated inland ; but Malayan labour was also drained away from the hinterland, impelled by the lure of better economic opportunities, if not by poverty.[1] It seems that the Malay's defensive attitude to Western capitalistic enterprise and ways of life was undermined by the economic upsets of the 'thirties. Then the second World War stirred nationalist sentiment and awakened the Malay to a sense of frustration not only in respect of warped economic opportunities open to him, but also in respect of his political weakness arising from lack of sufficient numbers and economic strength, which could possibly outweigh the combined influence of the Indian and the Chinese newcomers.

An analysis of the numbers, composition and the geographical and occupational distribution of Indian immigrants in Malaya clearly reflects the dynamics of the economic change in Malaya which we have just explained.

Indians, mostly unskilled estate labourers, have settled densely over a belt, about 40 miles wide, running down the west coast—the famous rubber belt of Malaya. Ninety-five per cent of Indians living on the mainland are concentrated here. The most even and dense distribution of Indians is found in two distinct rubber zones: the Kuala Lumpur-Klang-Malacca area, which contains the old and extensive rubber estates, and the rubber belt extending from Kinta valley to Butterworth. Nine out of the Malay Peninsula's ten large towns are situated in the rubber-tin belt. In Malaya, as in the rest of South-East Asia, the great urban centres are essentially the creation of the immigrants.

[1] It must be pointed out that according to the Malay Land Reservation policy non-Malays were prohibited from settling down on wastelands and engaging in agricultural operations. The object was to ensure that tin mining and rubber cultivation did not encroach on the paddy lands owned by Malays.

A detailed breakdown of the occupational distribution of Indians in Malaya in 1931 given below, throws interesting light on the place of Indians in the Malayan economy.

	Percentage of Indians employed to the total number employed in each category in 1931. Straits Settlements	Federated Malay States
1. Labourers in rubber cultivation ...	32	50
2. Labourers in coconut cultivation ...	50	40
3. Dock labourers ...	31	—
4. Other railway workers ...	70	86
5. Messengers and peons ...	50	—
6. Gatekeepers and watchmen ...	23	75
7. Workers in tin mines ...	—	6
8. Bullock-cart owners and drivers ...	—	66
9. Personal service ...	15	30
10. Railway locomotive drivers, firemen and cleaners ...	66	76
11. Drivers, conductors and cleaners ...	48	23
12. Mechanics and fitters ...	—	24
13. Proprietors and managers of business ...	15	18
14. Salesmen and shop assistants ...	12	19
15. Street vendors and peddlers ...	11	15
16. Money-lenders, pawnbrokers, etc. ...	80	87
17. Police ...	40	74
18. Clerks, office assistants etc. ...	1	25
19. Labourers (general and indeterminate) ...	9	54

It is clear that Indians occupied an important place in the Malayan economy as unskilled workers in rubber and coconut plantations, as unskilled dock labourers and railway workers, and as unskilled workers of a general and indeterminate category. They were prominent in the field of semi-skilled manual work, such as that of messengers and peons, gatekeepers and watchmen, and bullock-cart owners and drivers, and in occupations requiring a slightly higher degree of skill, such as the work of policemen and domestic servants. It will be noticed that next to unskilled work the most important occupation of the Indians has been that of 'money-lenders, pawnbrokers and money-changers' (80 per cent in the Straits Settlements and 87 per cent in the Federated Malay States). The *chettiar* money-lender of South India was the main source of medium-term and long-term agricultural credit in Malaya till the development of the co-operative movement in the 'thirties. He has also been the mainstay of rural trade and distribution, as in India, through the procedure of credit and instalment buying which are chargeable to market crops raised by peasants or to wage

incomes earned by landless agricultural labourers. The *chettiar* has acquired landed interests through the process of foreclosure and has also built up connections with notable Indian business firms interested in exports and imports. He has followed traditional practices in respect of interest which has varied from 1½ to 3 per cent per month ; he has not insisted on foreclosure or even repayment of principal so long as overdue interest was added to the principal.

There has been, however, another class of money-lenders that was interested in the cultivation of cash crops, collection of forest products, and manufacture of the products of native arts and crafts. A good deal of exploitation of labour has been associated with this combination of credit with productive activities. Moreover, the village headmen, who have wielded great influence with *Tamil* labour as well as *Sikh* and *Pathan* watchmen, have also functioned as money-lenders and have been notorious for charging extortionate rates of interest and for their sharp practices. During the depression of the 'thirties Malay peasants of the west coast were pauperized by the heavy burden of indebtedness to the *chettiars,* and the entire system of rural credit and distribution built on the foundation of money-lending practices imported from India and China fell into disrepute. The confusion of the second World War, which swept away contractual rights and obligations and also drove away the *chettiar* from the scene of his activities, established a kind of uneasy economic equilibrium. But the revulsion of feeling against mediaeval credit practices (whatever might be their possible justification in the existing circumstances of rural poverty) has been so strong all over South-East Asia that, when this feeling is reinforced by the hatred of the exploiting alien, it has all the ingredients of psychological dynamite.

Since the ban on the emigration of unskilled labour from India to Malaya in 1937, the Malay has found increasing employment opportunities to the extent to which he has been trying to make up the leeway on the road to economic progress. The following table indicating the changes in the occupational distribution of the Indian immigrants, relatively to the position of the Chinese and Malayasians between 1939 and 1947, shows certain significant trends.

RACIAL COMPOSITION OF WORKERS IN PRINCIPAL OCCUPATIONS IN 1947 COMPARED WITH 1939 (Percentages)

	Plantations		Mines		Factories		Public Service	
	1939	1947	1939	1947	1939	1947	1939	1947
Indians	65.3	50.0	13.0	14.2	15.0	18.0	64.0	55.4
Chinese	22.7	28.8	72.2	71.4	77.[illegible]	64.0	14.0	8.6
Malayasians[1]	12.0	21.2	14.8	14.4	7.3	18.0	22.0	36.0

It is interesting to note that while the proportion of Indian estate workers has declined between 1939 and 1949 the gap has been filled by the Chinese to the extent of 6 per cent, but by the Malayasians to the extent of as much as 9.2 per cent. The percentage of Indian mine workers increased slightly at the expense of the Chinese, but the Malay has maintained his relative position. Significant changes have occurred in respect of the racial composition of the labour force in factories. The percentage of Chinese workers has declined ; their places have been taken by Indians to the extent of 3 per cent but by Malayasians to the extent of as much as 11 per cent. The Malayasians have made up the leeway most strikingly in public service. It is difficult to say whether these changes are the consequence of public policy as part of the re-orientation of British colonial policy in Malaya, or whether they are the outcome of the natural course of events which is putting the Malayasians more prominently on Malaya's economic map. On a rational estimate of possibilities, both the explanations taken together give us the truth.

In a historical and analytical survey, it would be appropriate to bring out certain socio-economic issues of a general character in the light of which one may judge whether the existing trends of immigration policy are conducive to harmonious relations between India and Malaya.

Emigration of Indians to Malaya in large numbers started in the beginning of the present century when the rubber boom gathered momentum. The migration was stimulated by the system of 'indentured emigration' under which uncontrolled recruitment of Indian labour by Malayan planters was replaced by recruitment for a period of three years at the expense of individual employers at agreed rates of wages and with proper safeguards as regards passage, treatment of labourers during and after the voyage, and the execution of a three-year contract on arrival in Malaya.

[1] Including the immigrants from overcrowded Java.

Under the 'indenture system' the labourer after three years was free to return to India or to settle down in Malaya as a free labourer. But he was practically a bond-slave during the period of his contract. During the rubber boom of the first decade of the present century there was a scramble for recruitment of Indian labourers at higher wages as soon as the period of the contract expired. There was also greater mobility of labour than was desirable in the interest of stability of employment. The recruiters of labour also recruited more labourers than was desirable by offering temptations of a new El Dorado. After the abolition of the 'indenture system' in 1910 the recruitment of the so-called 'free labourers' through the agency of village headmen became the only recognized practice. Planters welcomed it, because the cost of recruitment was less. But the impecunious labourer purchased his free status at the cost of indebtedness to the recruiter who paid his travelling expenses and other expenses after arrival which he recovered later from the labourer's earnings. Eventually state intervention was necessary to prevent the exploitation of poor and ignorant migrants by controlling the activities of the village headman-cum-recruiting agent. After 1923 state assistance in the form of free passage to Malaya was granted to both 'recruited' and 'non-recruited' labourers. In the 'thirties 'non-recruited' free emigrants became much more important numerically than 'recruited' emigrants. Whereas in 1920, 88 per cent of Indian immigrants were in the 'recruited' category, in 1937 89 per cent were in the 'non-recruited' category.

On the whole, notwithstanding the theoretical merits or otherwise of the various systems of recruitment, the basic fact which stimulated emigration from India was the extreme poverty of the migrants. It is a matter of recorded history that the pioneering work done by Indian estate labourers in clearing jungles, draining the swamps, and planting rubber caused heavy mortality as the result of malaria and other diseases.. But the volume of Indian emigration nevertheless went on swelling, although the 'immigrational surplus' was small[1] in comparison with the total turnover of migrants.

The hard core of permanently settled Indians in Malaya gradually expanded. A considerable proportion of this settled

[1] The 'surplus' varied with the fluctuations in the price of rubber, the rate of wages and the scale of employment opportunities.

population moved into urban occupations, although amongst the estate workers also the hard core of settled workers was increasing in size. The settled population largely consisted of persons who had climbed up the social and economic ladder and had become self-employed workers or town-dwellers engaged in commercial activities.

In the meanwhile, the Malayasians needed expanding employment opportunities in unskilled occupations. It was clear that it was unwise to permit emigration from India of large bodies of migratory, unskilled and cheap labourers driven by hunger, who were unable to face economic insecurity, were bound to be exploited in a period of falling prices, and also, in the bargain, to evoke the hostility of the unskilled Malayasians. In 1938 the Government of India banned the emigration of unskilled labour from India. It is this step which explains the decreasing proportion of Indians employed in unskilled occupations between 1939 and 1947.

The first step towards the assimilation of the Indians was that the Indian immigrants had to be induced to settle down permanently and regard their country of domicile as their own. In order to do so it was necessary for them to bring their wives and children to their country of domicile. Under the Indian Emigration Act of 1922 the Government of India had taken power to enforce the requirement that out of every five persons 'assisted' to emigrate in any year two must be married women. But for various reasons the rule was not enforced. However, after the depression as the result of the ban on the emigation of unskilled labour from India, the sex-ratio of the Indian population in Malaya improved considerably. In fact after 1938 emigration from India was practically confined to wives and children of labourers already resident in Malaya. In 1947 the number of females to 1,000 Indian males was 692, as compared with 482 in 1931. Indian families have thus been increasingly stabilised, and the number of local-born Indians has been steadily increasing. It must be pointed out that this trend was encouraged during the depression by the allotment to each family of estate workers of a holding of three to five acres on which they could raise vegetables and other food crops and also cattle and poultry to supplement the family income and on which they could fall back during a period of unemployment.

In the post-war years, Indian emigration to Malaya has been regulated by a system of entry permits. The new Malayan immigration law which came into force from August 1, 1953 has been designed to tackle the problem on a definitive basis. This law ends unrestricted entry of Commonwealth citizens, including Indians, into Malaya. British subjects who were born or naturalized in Malaya or who have been continuously resident in Malaya for seven of the last ten years will henceforth have 'inalienable right of entry'. The ban on unrestricted entry of newcomers does not operate against wives and children of the present residents. Others who wish to enter Malaya must be in possession of (1) either an Indian or British passport with endorsement, obtained *prior to leaving Malaya,* of authority to re-enter the country; or (2) a re-entry permit under the present or projected immigration laws; or (3) an entry permit authorizing *permanent* residence; or (4) a pass permitting the holder to visit Malaya.

Experience of immigration control has shown that the system of granting individual employment permits for immigrant workers has proved its merits as compared with any system of limiting immigration on the basis of racial or occupational quotas. The issue of an employment permit for a particular occupation is designed to give a government powers to restrict or to encourage such employment according to the actual national requirements for labour in any given trade or occupation. The usual practice is to make these employment permits valid only for the branch of employment for which they were originally granted, and, properly administered, such a system should provide a government with a flexible instrument of reducing risks of competition leading to disorganisation in occupations into which large numbers of immigrants are seeking entry.

Indian migration to Burma has had a more significant character than Indian migration to Malaya in many ways. Until the political separation of Burma in 1937, Burma was a province of the Indian Empire and the movement of goods as well as factors of production was entirely unrestricted. The mobility of labour and capital between India and Burma had thus the character of interregional mobility. Regulation or 'assistance' was never a

conditioning factor of migration, as in the case of migration to Malaya. Burma being much nearer, the economic potentialities of Burma attracted larger numbers of Indians, and the adjustment of immigrant Indian labour and capital to resource development was much closer and had a much greater significance for the economic relations between Indians and Burmans. The proximity of Burma reduced the 'cost of movement' of labour. Hence the great majority of Indians stayed in Burma for 2½ to 3 years at a stretch, after which they returned to India for six months or so, to go back to Burma for further employment, and the worker was able to migrate on his own initiative, seek his own employment, arrange for his leave of absence and regain his employment. This has been rightly described as a type of 'permanently temporary' immigration which has raised complicated problems of adjustment of socio-economic relations between Indians and Burmans. Moreover, the ease of movement stimulated the flow of a much larger volume of cheap. 'distress' labour from India to Burma than from India to Malaya. It must also be recognised that Burma being the dead-end of Chinese migration to the south-west, it is Indians alone who answered to the description of an 'alien minority' in a country which until recently was part of India. And the problem of human relations which has arisen in such a situation has been complicated by the fact that Burmans, as compared with Malays, have in the past enjoyed a higher standard of living in their self-sufficient village communities in the northern hinterland, and have lacked neither economic enterprise in the field of commercial agriculture nor 'efficiency' at any rate in the skilled occupations.

The momentum to commercialization and urbanization—the twin processes operating within the framework of a feudal social structure, which yielded the highest dividends—was supplied in Burma by the 'rice rush', as it was supplied in Malaya by the 'tin rush'. Two important characteristics of this 'rice rush' of Burma have to be noted. In the first place, the rate of expansion of paddy cultivation in Burma was remarkable not only by Asian standards, but also by even the standards of expansion reached in the wheat belt of America or the Argentine. In the second place, commercial cultivation of rice in the initial stage was entirely in the hands of pioneering Burmese peasants who migrated from the north. The pioneer farmers were Burmans in the first instance.

What was then the place of Indians in the Burmese economy which was fast developing on the basis of a market economy centred on the export trade in rice?

Large numbers of industrious labourers were needed to clear swampy deltaic land for farming, and for the construction and maintenance of embankments (to hold storm water for irrigation and to keep out river floods). Cultivation of transplanted paddy (as distinguished from broadcast paddy) needed a large labour force for sowing, transplanting, and harvesting operations. Cheap hired labour was imported mainly from India for seasonal operations and also for the repair and maintenance of field embankments. There was thus a kind of division of labour under which arduous manual labour was left to Indians (not only in agriculture but also in mining and other unskilled occupations). Even in comparatively recent times Indian seasonal labourers were employed to the greatest extent in those districts of Lower Burma in which the holdings were largest and rice cultivation had attained a certain degree of capitalist concentration.

The Burman agricultural community was never organised traditionally on the basis of a money economy. It soon became apparent that its rate of spending, making allowance for expenditure on non-essentials, wages of hired Indian labour, and bare subsistence in lean years, did not equal the average income. Loans of money from Indian money-lenders, mortgages and eventual foreclosures followed in a tragic sequence particularly during the depression of the 'thirties. Thus gradually, indigenous peasant farming transformed itself into estate agriculture based on either tenant farming or employment of agricultural labourers on wages. These agricultural labourers were former peasant owners who competed for employment, not always successfully, with landless agricultural labourers immigrating from India. The new class of non-cultivating owners which entrenched itself in agriculture was not exclusively Indian in racial composition, but the conspicuously large increase in the transfer of ownership of paddy land to the *chettiar* community during the depression was an element in the situation which was fraught with dangerous possibilities.

The Indian emigrant to Burma found a particularly congenial field in sectors of the Burmese economy other than agriculture. Many Indians who had access to capital found free play for their commercial instincts in Burma during the period of the 'rice

rush'. The Indian trader, the Indian shopkeeper and shop assistant, and the Indian money-lender found a virgin field for their activities in Burma so long as the Burman stuck to his traditional ways of life. Indians with some degree of clerical or technical training in fields with which they had become familiar in India, were introduced into railways and commercial firms before there were adequate numbers of educated and trained Burmans seeking employment.

The Burman with his tradition of community life in the village did not at first take kindly to urbanization. In fact as late as 1911 the author of the Census Report, Mr. Morgan Webb, while explaining the failure of a large number of urban areas in Burma to keep pace with the general increase of population referred to "a comprehensive instinctive effort" of the Burmans "to effect the colonisation of the waste places of the province." In his view the towns had "ceased to progress because the demand for agricultural extension had been irresistibly drawing their actual or potential surplus populations." In the meanwhile, the Indians inured to urban life or uprooted from the rural communities in India had been swarming into Rangoon which eventually became a predominantly Indian town.

In 1931 the Indian population of Burma represented 6.9 per cent of the total population. But the concentration was much higher in the rice region. The Indian population in Lower Burma was 10.9 per cent, as compared with 2.5 per cent in Upper Burma. 21.6 per cent of the population of Arakan and 15.6 per cent of the population of the Pegu Division was Indian. The long-term trend was that the rate of growth of the Indian population exceeded that of the population as a whole.

There was a fairly close correspondence between the volume of Indian immigration and the fluctuations in the total value of Burma's foreign trade. In 1928 there was an immigrational surplus of 85,000 Indians; in the 1931 depression there was a net emigration from Burma of 57,000 Indians, although the agricultural depression which was characterised by a fall of prices, and not of output, did not mean a decline in the immigration of unskilled Indian labourers. The sex composition of the Indian population showed an abnormally high disparity between males and females. There was less than one female to five males in the case of immigrant Indians. This was a cause of grave social instability, and

promiscuity of relations with the indigenous people was supposed to be one of the causes of anti-Indian riots in 1938.

The following table shows the occupational distribution of the Indian population according to selected economic functional categories in 1931 and the regional variations in the occupational distribution. The five occupational groups shown in the table accounted for 95 per cent of all male earners in Burma, 96 per cent of Burman male earners and 94 per cent of Indian male earners. The statistics have been compiled from tables given in the famous *Report on Indian Immigration* submitted by Mr. James Baxter who was deputed to enquire into the problem of Indian immigration as a sequel to the anti-Indian riots of 1938.[1]

INDIAN MALE EARNERS IN SELECTED ECONOMIC FUNCTIONAL CATEGORIES IN 1931

(Percentages to total male earners)

Functional Groups	Burma	Rangoon	Delta sub-division, excluding Rangoon.	Coast sub-division	Arakan, Tenasserim	Centre sub-division.	North sub-division.	Shan States	Chin Hills, Arakan Hill Tracts and Salween District
1. Agriculture, Fishing and Hunting	5.2	—	7.4	21.4	4.6	0.8	3.2	0.8	0.04
2. Clerical workers	42.3	53.7	45.3	39.6	32.2	31.3	52.3	23.8	29.2[3]
3. Craftsmen	25.2	56.1	20.8	44.8	20.8[2]	9.4	15.4	35.0	21.1[3]
4. Labourers, unskilled and semi-skilled (excluding scavengers and sweepers)	47.4	88.5	56.3	80.1	50.4[2]	20.9	15.7	23.3[4]	35.3[3]
5. Traders and shop assistants	33.5	69.5	27.5	45.0	44.9	18.3	19.6	13.9	44.9[3]

The statistical picture presented above does not show that unrestricted immigration of Indians actually resulted in the swamp-

[1] Mr. Baxter's able assessment has contributed much to the author's understanding of the situation presented here.
[2] Bulk employed in the mining industry (tin and wolfram).
[3] Numbers were insignificant.
[4] A large part of Indian labour was employed in lead, silver and wolfram mines.

ing of occupations, except in certain fields of employment and in certain regions, by Indian immigrants in the same way as Indians and Chinese swamped them in Malaya. In many fields the Burman was able to hold his own. But what is more significant is the concentration of Indians in Rangoon and the deltaic parts of Lower Burma — the region in which there was intensive development of capitalistic enterprise. There is no doubt that Indians, along with other foreign elements, were skimming the cream of Burma's economic progress.

Between 1931 and 1941 large areas of land passed into the ownership of the Indian *chettiar* community. During this period the area occupied by all agriculturists increased by barely 3 per cent, but the area in the hands of non-agriculturists increased by 60 per cent of which the share of Indians was steadily growing. This gave rise to a grave agrarian problem to which the Indian banking community unconsciously contributed.

If we take the category of petty *bourgeoisie* — clerks, traders and shop assistants — Indians and Burmans were strongly competitive and in proportion to the population the share of Burmans in these fields of employment was inadequate. In Rangoon, which offered the widest field of employment in these occupations, 53.7 per cent of clerks and 69.5 per cent of traders and shop assistants were Indians. It was the strongly articulated resentment of the Burman against the Indian petty *bourgeois* which very largely modulated the anti-foreign feeling in Burma and embittered the relations between India and Burma.

The dominance of Indians in unskilled and semi-skilled occupations is another striking fact revealed by the statistics. In Burma as a whole Indians accounted for 47.4 per cent of male earners in these occupations, although they formed not even 7 per cent of the total population. In Rangoon (88.5 per cent), the adjoining delta sub-division (56.3 per cent) and in Arakan (80.1 per cent) the overwhelming importance of low-paid Indian unskilled workers created an explosive situation during the period of depression in the 'thirties.

Burmans held their own against Indians (except in Rangoon and Arakan) as craftsmen, as skilled workers in general and as industrial workers in particular. In 1931 the percentage of Burmans to the total number of earners and working dependants was 100 in the textile industry, 92.9 in the ceramic industry, 91.9

in professions and liberal arts, 84.8 per cent in the wood industry, 70.9 in food industries, 68.3 in the dress and toilet industry and 59.7 in the metal-working industry. In industry as a whole Burmans formed 80.8 per cent of the total number of earners and working dependants. In internal trade and distribution Burmans' share was 73.3 per cent from the point of view of numbers employed and it is difficult to assess their importance from the point of view of the total value of transactions.

These statistics should be set in a correct perspective. In Burma industrial development was meagre, as compared with the development of commercial agriculture and mining. The larger units of the two important processing industries of Burma—the rice-milling industry and the saw-milling industry—were under foreign ownership and located in Lower Burma. They naturally recruited labour from the fluid supply of Indian labour in Indianized areas, such as Rangoon, Hanthawady, and Bassein. Where there were Indian mill-owners they preferred to have Indians as a homogeneous labour force which was conducive to efficient working. On the other hand, Burman labour held its own in smaller rice-mills or saw-mills located farther inland. What was true of the rice-milling and the saw-milling industries was also true of mining. There was comparative lack of mobility of Burman labourers, which restricted them to industrial employment in their home districts. They proved to be efficient industrial workers where they worked in familiar rural surroundings in an atmosphere of family life. Thus they proved their efficiency in the mineral oil industry which developed in the hinterland. They also gave a good account of themselves in the cotton textile industry of Burma which also developed in an inland centre in conditions different from those of the Indianized areas of Rangoon and the south and into which Indian labour could not penetrate.

It was quite evident in the 'thirties that lack of economic opportunities of which the Burmans complained could no longer be explained away by the inability of Burmans to fit into a capitalistic society which was being fashioned in their homeland. Initially the Burman had all the advantages of an underpopulated country without realizing its disadvantages. As a member of a moderately prosperous agricultural family, he was carefree by temperament and not unduly inclined towards additional strenuous labour for material gain if this interfered with his own notion of a

congenial mode of living. The attitude to work of an Indian labourer, driven by population pressure to seek his livelihood abroad at a very low level of existence, was basically different. The Burman, therefore, did not mind if hard and dirty work was left to Indians. But trouble arose when the simplicity of the earlier regime was upset with the onset of the depression. There was a steady and persistent demand by Burmans for employment as unskilled labourers under conditions and at rates of wages which they would never have accepted before. Thus the agitation against increasing employment of Indians in Burma was not political.

There were certain danger spots in Burma in which psychological dynamite was getting ready for explosion in the 'thirties. The anomalous composition of the population of the capital city with 53 per cent of Indians in 1931 was a constant psychological irritant. The Burman was constantly made aware of the alien control of business, of the steady infiltration of Indian immigrants who provided the bulk of unskilled labour, and of the presence of a large army of semi-educated Indian clerks and shop assistants. Burmans occupying managerial posts were few. Even the more lowly positions of superintendents and assistants were occupied by Indians. In the port of Rangoon which handled nine-tenths of Burma's foreign trade, it was the Indians that handled most of the work. Employment of casual Indian dock labour to the almost complete exclusion of Burman labour was the principal cause of the *Coringhi* riots of 1930. A similar situation came to a head in Arakan in which, as the table given on p. 309 shows, as much as 80 per cent of unskilled and semi-skilled workers were Indians and which was another danger spot. Here the penetration of cheap Chittagonian labour from across the Indian border was steadily continuing and was deeply resented by the local inhabitants. A third danger spot was the delta region in which as already said, the *chettiar* bankers of India had acquired considerable landed interests during the period of depression. As the result of foreclosures in the case of heavily mortgaged land in the thirteen principal rice-growing districts of Burma, the percentage of the area owned by the *chettiars* to the total area occupied rose from 6 per cent in 1930 to 24 per cent in 1935 and 25 per cent in 1936, after which there was no change in the percentage till 1938. The fact that the *chettiars* had increased their share of the total area

occupied by non-agriculturists from 19 per cent in 1930 to as much as 49 per cent in 1936 and 50 per cent in 1938 clearly meant that the *chettiars* as a class of alien landlords had become as important as the class of indigenous landlords.

The rest of the story of Indian emigration to Burma is easily told, and may, in fact, be easily inferred from the survey presented above. In July 1941, Indian immigration to Burma was restricted by an agreement between the governments of India and Burma in an effort to remove the undesirable competition offered by the class of what we have described as 'permanently temporary' Indian labourers. The object of this agreement was to remove the apprehension that Burma would be swamped by loose-footed Indian labourers, and at the same time to secure for the permanently settled Indians recognition of their rights. Whether the agreement would have worked is open to question. But the situation was transformed by the Japanese occupation of Burma. The intolerable situation was relieved by the flight of almost half a million Indians by land and by sea, which was euphemistically described as 'evacuation', but in the process of which thousands must have lost their lives due to lack of food and water, disease, and exposure. It is said that the sins of Indian money-lenders were visited upon Indian artisans and wage earners many of whom lost their lives at the hands of the infuriated Burman peasants. Bruno Lasker says that even the Burmese Independence Army, after the British Army was evacuated, "ventured forth to kill as many Indians as it could." The remnants of Indian settlers sought the protection of the Japanese and found shelter in the well-policed streets of Rangoon.[1] On the whole, the flight of Indians relieved the labour market. The legal claims to ownership of land and land mortgages held by the *chettiars* who had fled were abolished by the Japanese. Thus Burman landless labourers and tenants who had lost their means of livelihood as the result of the paralysis of capitalist agriculture were able to support themselves by means of subsistence farming supplemented by village crafts.[2] It is very probable that the Japanese, while they earned the goodwill of the Burmans in this way, also exploited the helpless position of Indians by enlisting them in the service of the occupation authorities.

[1] Bruno Lasker, *Asia on the Move,* p. 62.

[2] Remission of land revenue was another measure of relief in a desperate economic situation.

The Burmans found in wartime that the source of their economic strength was intensification of effort on food production and production in small industry. The end of the war has not made much difference to this wartime re-orientation of the Burman economy. Since this new economic set-up would reduce the use of foreign labour and capital to a minimum, it suits Burma's defensive attitude to possible foreign economic domination. Burma has no doubt resumed her export trade in rice and timber, but she relies on state-trading in these major export products. The export of rice and timber is handled by the State agricultural marketing board and the State timber board, government agencies set up for the purpose as part of the general policy of nationalization. The obvious objective of state-trading is not only to retain a strong bargaining position and secure good prices and stable markets for rice and timber but also to earn profits from trade for revenue. It is obvious that in this set-up profits of foreign traders would be minimised and there would naturally be increasing opportunities for Burmans, rather than foreigners, for the handling and financing of this trade at the primary and intermediate stages of the movement of trade. The operation of import and export controls on the basis of quotas and licences also naturally makes it easier for Burmans now to participate increasingly in foreign trade—a field which was previously dominated by foreign capital and enterprise. Burmanisation of public services, including transport services, is also an inevitable step which restricts the field of employment of foreigners.

There is now a strict control of Indian immigration into Burma. The Burma Immigration (Emergency Provisions) Act of 1947 prohibits the entry of any person into Burma without either a passport duly visaed by, or on behalf of, the Government of Burma, or without an immigration permit issued by the Controller of Immigration. This piece of legislation primarily affects Indian immigration, and it will be noticed that the new Malayan legislation bears a family likeness to the Burmese legislation. Between May, 1945 and April, 1947 less than 3000 new Indian emigrants only were sponsored by the Government of India, as compared with the pre-war net immigration of 23,000 persons per year on the average. On the whole, the main objectives of immigration control in Burma (and also Ceylon) seem to be (1) prevention of influx of unskilled labourers; (2) regulation of business practices of

foreigners, for example, those relating to the rate of interest charged and the employment of nationals in business firms; (3) reservation of part of foreign trade, of certain fields of employment and of certain public economic activities to nationals; (4) control of remittances sent by immigrants abroad and (5) prohibition of alienation of land owned by nationals to foreign owners.

Control of remittances from Burma needs special comment in this connection. Exchange control in Burma has operated in recent years not only to meet the normal balance of payments difficulties but also primarily to check the flight of private capital which was seeking repatriation due to economic insecurity and the restricted opportunities for foreign capital, if not the threat of nationalisation. In this connection reference may also be made to the new programme of land nationalisation and land distribution, the details which were recently reported in the press. On May 25, 1953, the Burma Government announced a ten-year plan for a 'new order' for Burman peasants, which includes free distribution of 10 million acres of land to the landless peasants in the next two years. These areas will be acquired from non-agricultural holders under the Land Nationalisation Act of 1948 and distributed free to peasants. The Land Nationalisation Act of 1948 has not been implemented so far on any significant scale, and it seems that a planned effort will now be made to implement it. Under this Act the compensation which landlords will get for the land that is nationalised is small, in most cases limited to twelve times the annual land revenue assessed *plus* some compensation for 'constructional improvements.' It is doubtful whether an appreciable amount of Indian capital invested in agricultural land in Burma would be eventually repatriated through such compensation as has been permitted under this Act.

The problem of Indian emigration to Ceylon shows the same set pattern which we have already described in the context of Malaya and Burma. In Ceylon, as in Malaya, the impetus to colonial economic development originated from the organisation of plantation agriculture for growing tea and rubber for export. The wonderful potentialities of this tropical island in respect of production and export of these valuable commercial crops, as

well as of palm oil and coconut products, were tested and proved by foreign, mainly British, capitalistic enterprise. In Ceylon, however, indigenous capitalistic enterprise has not been slow in adapting itself to the economic changes. Although foreign enterprise has dominated the economy, yet indigenous enterprise has not allowed itself to be pushed entirely to the wall. Ceylon's tea plantations are almost entirely foreign-owned. But 60 per cent of rubber estates and all the coconut estates are owned by the Ceylonese. And, of course, the exploitation of one-third of the cropped area which is under food crops is necessarily in the hands of the indigenous population.

As in Malaya so also in Ceylon, the development of tea and rubber plantations induced a free flow of cheap estate labour from the great reservoir of unskilled hardy labour, the *Tamil* country which was near at hand. Cost of movement involved in the importation of such labour was small. As a matter of fact, it is the close proximity of Ceylon which explains the greater fluidity and mobility of Indian labour reflected in the larger volume of short-period migration in response to relative economic fluctuations in India and Ceylon. At the same time since the climate, the environment and the mode of life in Ceylon are congenial, *Tamils* have shown a greater disposition to make Ceylon their permanent home when conditions are otherwise attractive.

In 1946 *Tamils* formed almost 10 per cent of Ceylon's total population of 6·7 million. The *Tamil* population consisted of recent immigrants and their descendants and thus also reflected the natural increase of population in the case of Indian immigrants. The comparatively recent element of the *Tamil* population must be differentiated from the descendants of old *Tamil* settlers. The northern zone of Ceylon, which is now a dry zone, was at one time more productive as the result of the remarkable development of tank irrigation. It was occupied by *Tamil* invaders in the 11th-13th centuries. The descendants of old *Tamil* settlers who inhabit this zone are largely peasant farmers and are quite distinct from the foot-loose *Tamil* labourers who were imported into the tea and rubber estates during the present century. While the old *Tamil* settlers have been absorbed in Ceylon's population as indigenous inhabitants, the recent immigrants who have been moving between India and Ceylon in response to the vicissitudes of the tea and rubber industries have, as in Burma, constituted a

problem in recent decades. Fluctuations in the migration of Indians between India and Ceylon are indicated in the following table:

MIGRATIONS OF INDIANS BETWEEN INDIA AND CEYLON

Years.	Net immigration + or net emigration —	Net immigration as percentage of Ceylon's population increase.
1921-31	+ 150,000	19
1931-41	—1,000,000	—
1941-45	+ 90,000	14
1946	+ 57,000	32
1947	+ 22,000	11
1948	+ 20,000	9

We may note two significant facts in this connection. First, while the movement of Indians between India, on the one hand, and Burma and Malaya respectively, on the other hand, has shrunk to negligible proportions after the war (mainly due to wartime destruction of economic potential and consequent shrinkage of employment opportunities in these two countries), the movement of Indians between India and Ceylon has continued on a fairly large scale.

ANNUAL EMIGRATION FROM INDIA

Years	Persons
1932-40	100,000 to 200,000
1941-45	70,000 to 330,000
1946	296,000
1947	221,046
1948	205,589

After 1947 by virtue of her new status as a dominion, Ceylon has exercised her right to determine the composition of her population and has set her face against unrestricted immigration of Indians. Secondly, the percentage of net immigration to the total increase of Ceylon's population has shown a distinct fall between 1921 and 1948, if we leave out the abnormal year 1946—a fact which contradicts the alarmist view that there was a danger of Indian emigrants swamping Ceylon.

The sources of economic friction between Indian immigrants and the indigenous population have been apparently the same in Ceylon as in Burma. Reference is usually made to the rapacity and economic dominance of the trading and money-lending classes of Indians, but according to the *Economic Survey of Asia and the Far East* (1950) Ceylon, with 17 per cent of the national income originating in the Government sector, is unique among countries

of the ECAFE region; and, according to the same source, only 8 per cent of the national income of Ceylon originated in trade. Although the dominance of Indians in the restricted field of trade, taking also into account internal trade and distribution under a regime of controlled distribution and rationing, should not be exaggerated, yet the hold of businessmen and traders on the economic life of Ceylon is a fact which cannot be denied. The second source of economic friction is the situation created by a vast mass of 'permanently temporary', unskilled Indian labourers who are supposed to be a drag on wages and conditions of employment. In Ceylon, as in Burma, the readiness of *Tamil* labourers to work at rates of wages which are far less than what suits the Ceylonese conception of a fair rate of wages for the particular job, is deeply resented. The third cause of irritation is the drain of money remitted home by Indian immigrants which is visible to the layman as a drain of wealth from Ceylon.

At the time of writing it is difficult to predict how the status and position of Indians are going to be definitively determined by agreement between India and Ceylon. But the main elements of the problem may briefly be described. At the moment Indians in Ceylon number about 10,00,000 persons of whom about three-fourths or 750,000 are estate workers. Part of these 750,000 persons consists of those who have lived in Ceylon for decades with their families and have no ties with India. There must be a very small proportion of people amongst non-estate workers who also belong to this category. Under Ceylon's Citizenship Acts applications have been invited from Indians for registration as citizens.

There is conflict between the rising Ceylonese *bourgeoisie* and its Indian counterpart. Recently, the Ceylon Government decided to establish in Colombo at the cost of Rs. 7 million, a Ceylonese business centre with shops, banks, offices and hotels to be owned and run exclusively by the Ceylonese, on the ground that Indians and other foreign nationals have a virtual monopoly of buildings in the Pettah, the chief business centre of Colombo. It is also known that Government has granted privileges in business exclusively reserved for the Ceylonese, and they are promptly registered for business in the reserved field on supplying proof of citizenship.[1] 'Ceylonization' in employment with a view to pro-

[1] Recently it was reported that the Ceylonese in some cases do business not for themselves but for non-nationals whom they represent under cover.

tecting nationals from unemployment is a settled policy of the Ceylon Government. 'Ceylonization' of trade may very well be the next step. Thus it is easy to see what the outcome of this conflict is likely to be.

The stringent exchange control regulations introduced recently (May 13, 1953), which particularly affect remittances to India and other countries of the sterling area by non-nationals have obviously increased the difficulties of Ceylon's non-nationals. Remittance by money order has been limited to Rs. 30 per month, provided the remitter holds a valid passport or identity certificate, together with a temporary resident permit, or is able to prove residence in Ceylon prior to November 1, 1949, and continuous residence thereafter. Remittance made through banks is limited to Rs. 50 per month, provided the remitter pays income-tax in Ceylon. For purposes of travel non-citizens travelling to South India are allowed a basic ration of Rs. 250 once in every two years. These stringent regulations are non-discriminatory (so far as Indians are concerned) and are justified on the ground of Ceylon's balance of payments difficulties. But whatever the intention, the consequence of the operation of these regulations will be to make the position of Indians who do not seek Ceylonese domicile really difficult.

In a certain sense, capital movements do not encounter many difficulties which are associated with the movement of labour. Cost of movement of capital is far less. Capital development in countries of South-East Asia has been so inadequate that there is much less objection to the importation of foreign capital on the score of 'uneconomic competition' at any rate in the present phase of economic development, although foreign capital in many of these countries is being viewed as a symbol of foreign economic domination.

Fortunately, it is possible now to form a somewhat clear picture of India's financial relations with the countries of the Far Eastern and Pacific region on the basis of statistics contained in the *Census*

It was also reported that business privileges could not be claimed by firms having Indian partners and that existing Indian firms were required to employ a sufficiently high percentage of Ceylonese both in the lower and higher ranks of service.

of India's Foreign Liabilities and Assets as on 30 June, 1948, conducted by the Reserve Bank of India. The analysis presented in the following pages proceeds entirely on the basis of this extremely illuminating census.[1] The basic statistics have, however, been compiled in a regional setting and have been presented in such a way as to throw light on particular aspects of our analysis. The following comparative table presents the total net position in respect of India's assets and liabilities for the region as a whole and for individual countries.[2]

INDIA'S FOREIGN LIABILITIES AND ASSETS, 30 JUNE 1948
(Rs. lakhs)

	Net Position			Total Net Position	
	Short-term.	Long-term.	Whole	Non-official Sector	Official Sector
Net Foreign Liabilities + Assets —					
1. Pakistan	— 7,23	— 278,97	— 286,20	+ 9,15	— 295,35
2. Ceylon	+ 10,75	+ 6,99	+ 17,74	— 2,25	+ 19,99
3. Burma	+ 1,28	— 85,34	— 84,06	— 34,99	— 49,07
4. Malaya	— 2,41	— 11,78	— 14,19	— 12,95	— 1,24
5. Indonesia	—	— 39	— 39	— 14	— 25
6. Thailand	+ 1,59	— 12	+ 1,47	— 5	+ 1,52
7. French Indo-China	— 22	— 5,70	— 5,92	— 5,92	—
8. China	.	+ 1,69	+ 1,69	+ 1,69	—
9. Japan	— 9,97	+ 67	— 9,30	— 52	— 8,78
10. Australia	— 1,09	— 1,10	— 2,19	— 86	— 1,33
11. Canada	— 1,60	+ 4,35	+ 2,75	+ 4,46	— 1,71
12. U.S.A.	— 3,26	+ 17,65	+ 14,39	+ 16,97	— 2,58
Grand Total	— 12,13	— 352,05	— 364,21	— 25,41	— 338,80
Grand Total excluding Pakistan*	— 12,13	— 52,05	— 64,41	— 25,41	— 38,80

* Official liability to India of Rs. 30,000 lakhs.

A few facts stand out even on a cursory inspection of the table. In the first place, in 1948 India had net assets in relation to this region as a whole, and the assets exceeded liabilities both on short-term and long-term accounts. In the second place, the net

[1] *Census of India's Foreign Liabilities and Assets*, Reserve Bank of India, Bombay, 1950.

[2] Basic data have been obtained from Table No. V-16 on pp. 122-123 of the *Census*.

assets of the official sector formed the major part of the total net assets—a fact which merely underlines the importance of governmental financial transactions in recent times. In the third place, the figures show the predominance of long-term net assets,—both governmental and private, as compared with short-term net assets. In the fourth place, financial transactions with India's immediate neighbours, Pakistan, Ceylon, Burma and Malaya, are naturally more significant than those with Indonesia, Thailand, French Indo-China or China.[1] It will be noticed that the figure of total net assets of Rs. 364,21 lakhs is swollen by the long-term debt of Rs. 300,00 lakhs which the Pakistan Government owes to the Indian Government. Even if this abnormally large figure is excluded the relative importance of (a) long-term net assets and of (b) net assets of the governmental sector is not eliminated.

Without going too much into detail it would be clearly necessary to analyse the character of investment under the broad categories shown in the table. For this purpose we shall deal with India's financial relations with Japan, Australia, Canada and the U.S.A. separately. They clearly belong to a group which is characterised by a higher degree of capital development and is distinct from the rest of the countries from the point of view of the character of their economies. Of the rest of the countries of the Far Eastern and Pacific region the important countries to be considered, as already explained, would be Pakistan, Ceylon, Burma and Malaya.

As we have already noted, the net assets of India predominate in respect of long-term investment. Following the classification adopted in the *Census,* it would be convenient to divide the long-

[1] The *Census* shows that India's financial relations with the latter group of countries were of a very limited character. In the case of Indonesia the net assets of India (Rs. 39 lakhs) were long-term assets of which Rs. 28 lakhs were accounted for by immovable property owned by Indians and the rest by the long-term assets owned by the Governmental sector. In the case of Thailand the total net liability of Rs. 1,47 lakhs is explained mainly by the balance of the line of credit (short-term) of Rs. 4,77 lakhs extended to Thailand by the Government of India in 1946. The net assets of Rs. 5,92 lakhs as against Indo-China are mostly accounted for by Rs. 6,62 lakhs worth of Indian immovable property and Rs. 22 lakhs of short-term advances made by Indian joint-stock companies. India's net liability of Rs. 1,72 lakhs in relation to China was on account of China's direct financial investment in India.

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term items into two broad categories:—(I) shares of joint-stock companies, proprietary interest in partnerships, net position of branches of foreign firms and companies and securities; and (II) miscellaneous items, such as deposits, loans and advances, insurance, immovable property and residual items. In the following tables the total net position under categories I and II is separately presented in the case of Pakistan, Ceylon, Burma and Malaya.

Net Assets of India

(Rs. lakhs)

Net Foreign Liabilities + Assets —	LONG-TERM NET POSITION, CATEGORY I			
	Pakistan	Ceylon	Burma	Malaya
Shares of Joint-stock Companies				
(1) Portfolio ...	+ 9,19	—1,82	— 4,72	— 18
(2) Direct ...	+ 25	—	— 6	+ 3,34
Proprietary Interest in Partnerships				
(3) Portfolio ...	— 23	— 80	— 7	— 50
(4) Direct ...	+ 6	+ 3	—	—
(5) Net position of Branches of Foreign Firms and Companies ...	+ 3,17	+2,26	+ 2,37	+ 18
(6) Securities ...	+ 20,51	+9,75	+ 2,30	— 47
	LONG-TERM NET POSITION, CATEGORY II			
Deposits ...	+ 64	+ 1	+ 3	+ 1
Loans and Advances ...	— 73	— 1	+ 2	— 1
Insurance ...	+ 3,30	+2,00	+ 98	+ 44
Immovable Property ...	— 14,99	—4,45	—33,94	—14,51
Residual Items ...	—300,14	—	—52,69	— 8

In the past trade, finance and even productive enterprise in Burma and Ceylon (and not in Malaya to any marked extent) were drawn into the orbit of British capitalistic enterprise centred in India. Normally, there was probably a seasonal flow of funds to India part of which might have been of a long-term character. One cannot say, however, how much of this diversion of funds from Burma and Malaya after the war can be explained by lack of investment opportunities or by the precautionary or security motives. Net liability in respect of long-term 'securities' in relation to Ceylon and Burma was small, compared with the net liability in relation to Pakistan. One is tempted to conjecture that the possible explanation of this item is the preference of Indian immigrants

in these countries for long-term government securities and other safe assets like Municipal and Port Trust bonds and debentures. So far as Malaya is concerned India's net assets in respect of 'securities' (Rs. 47 lakhs) arose mainly in the non-official sector. At one time Malayan Government bonds used to be an attractive line of investment for British business firms and individuals resident in India.

It will be noticed that the long-term deposits with commercial banks and insurance companies play an insignificant role in the long-term financial transactions between India, on the one hand, and Ceylon, Burma, and Malaya, on the other hand. The net liability on this item was, however, Rs. 64 lakhs in relation to Pakistan, which represented the obligations owned by depositors who became foreign nationals after the partition. Long-term 'Loans and Advances' were also insignificant, except in the case of Pakistan.

The statistics of immovable property contained in the above table suffer from the limitation of insufficient coverage as well as overestimation in the case of property owned by Indians in Burma and Malaya. The property acquired by the *chettiar* community in Burma and Malaya in the form of land and other real estate could not be properly assessed, because of the ownership of property by the undivided joint family in India and also because the earning members of the family were moving between India and Malaya or Burma for fairly long periods of stay in either country and it was difficult to ascertain whether their centre of economic interest was India or the foreign country concerned. Secondly, in the case of Pakistan only immovable property declared by Indian joint-stock companies was included in the *Census* (which explains why the figure is small). The value of the real property of migrant owners, both Hindus and Muslims, was excluded not only because of the difficulty of handling thousands of returns, but also because even if the valuations declared were correct, the purchase or cost price of the property left by migrants would bear no reasonable relation to their current or realizable value. In the case of Indian property owned in Burma and Malaya, the value declared was more than the realizable value if we take into account the low scale of compensation fixed for the valuable rice land owned by the *chettiars* in Burma and the depression of land values in Malaya owing to political and econo-

mic insecurity. The bulk of immovable property owned abroad being in Pakistan, Malaya, and Burma, and there being insufficient coverage for Pakistan and overvaluation of assets in the case of Malaya and Burma, the figures given in the table should, therefore, be assessed with a sufficient degree of caution.

It would be interesting in this connection to note the breakdown of 'immovable property' owned by Indians in Pakistan, Ceylon, Burma and Malaya, which is given in the following table :—

VALUES OF INDIAN 'IMMOVABLE PROPERTY'

(Rs. lakhs)

	Land and estates	Buildings	Factories	Mines
Pakistan ...	2,65	56	11,78	—
Ceylon ...	3,10	1,28	7	—
Burma ...	29,78	3,62	51	3
Malaya ...	9,22	5,26	3	—

The 'residual items' in Category II are (1) the long-term net asset of Rs. 300,14 lakhs in relation to Pakistan of which Rs. 300 lakhs represent the debt owed by the Government of Pakistan to the Government of India as the result of the partition settlement ; and (2) the net asset of Rs. 52.69 lakhs in relation to Burma, representing the old debt owed by the Burma Government to the Government of India on account of various transactions arising from the separation of Burma which has since been scaled down.

The total 'net' position in respect of short-term assets and liabilities may now be briefly analysed. As we pointed out at the outset, it is insignificant, as compared with the 'net' position in respect of long-terms assets and liabilities. These short-term assets and liabilities arise out of current banking and insurance transactions and also inter-company or inter-branch financial transactions connected with industry and trade. The position is indicated in the following table :—

INDIA'S SHORT-TERM NET POSITION

(Rs. lakhs)

Net Foreign Liabilities + Assets —	Pakistan	Ceylon	Burma	Malaya
1. Deposits ...	+ 9,57	+ 88	+57	+ 23
2. Loans and Advances ...	— 2,49	— 12	— 4	— 11
3. Negotiable Instruments ...	+ 3	— 42	—25	— 6
4. Letters of Credit ...	— 7	— 3	+ 1	— 43

INDIA'S SHORT-TERM NET POSITION

(Rs. lakhs)

Net Foreign Liabilities + Assets —	Pakistan	Ceylon	Burma	Malaya
5. Inter-Company Advances ...	— 27	— 11	+26	—
6. Inter-Branch Balances ...	+ 4,13	+119	+45	— 90
7. Insurance ...	+ 1,73	+ 9	+11	+ 13
8. Residual Items ...	—19,86	—	+17	—127

Current deposit accounts are sometimes opened in foreign countries for the purpose of financing trade. To the extent that India's imports and exports are paid for in rupees, foreign-owned deposits would increase or decrease according to the relative values of current exports and imports to be financed in this way. Negotiable instruments (cheques, drafts, bills of exchange) and letters of credit are alternative media of international exchange. 'Loans and advances', i.e. temporary accommodation received from individuals and institutions, represent another means of financing the movement of goods and services from one country to another. When branches of the same company operate in several countries (as they do in India, Pakistan, Ceylon, Burma, and Malaya) or when companies are integrated in the relation of a parent to subsidiaries or affiliates (which is also the case in this region) goods may be transferred from one branch to another or from one company to another, and trade may be financed by operating upon inter-company or inter-branch balances without taking recourse to the banking system. It is quite apparent that all of these methods are employed for financing foreign trade with the countries that we are considering here, the net position in respect of the various items depending upon the values of exports and imports and the extent to which particular methods of financing can be employed.

We can get a clear idea of the relative importance of the alternative methods of financing the movement of goods and services from the statistics of the total value of transactions effected by means of each. The *Census* gives us basic data of assets and liabilities under each head. If we add the values of assets and liabilities under each head the total gives us the total value of transactions effected in India and the other four countries that we are considering here by means of each method of short-term transfer of funds. The relevant statistics are compiled in the following table.

RELATIVE VALUES OF SHORT-TERM TRANSFERS

		Percentage including Pakistan	Percentage excluding Pakistan
Deposits	...	30.8	27.3
Loans and Advances	...	7.3	4.5
Negotiable Instruments	...	2.3	9.5
Letters of Credit	...	1.8	10.0
Inter-Company Advances	...	1.8	8.0
Inter-Branch Balances	...	55.8	40.0

It is clear that operating on deposits and inter-branch balances is the most important method of financing current transactions between India, on the one hand, and the four neighbouring countries, on the other. The overall figures are, no doubt, inflated by the relative predominance of these two methods of current financing in the case of Pakistan. But it is interesting to note that even in the case of India's short-term transactions with Ceylon, Burma, and Malaya, we find a similar predominance of deposits and inter-branch balances as sources of short-term finance. This trend is explained by two important facts. In the first place, foreign joint-stock enterprise operating through branches, subsidiaries or affiliates, or otherwise co-operating among themselves, dominates the economies of all these countries. In the second place, the difficulties experienced with regard to short-term remittance under exchange control regulations designed to conserve foreign exchange have perhaps made these two methods of finance more important than they would be in normal circumstances.

Two other 'short-term' items remain to be considered, viz. 'insurance' and 'residual items'. The net short-term insurance liabilities are on account of fire, marine and other policies, including matured claims and re-insurance premia. The net liability to Ceylon, Burma, and Malaya under this head is small (Indian insurance companies have not made much headway in these countries). Pakistan is naturally an exception, because most of the Indian insurance companies are located in what is now India, and the policy holders in Pakistan seem to have kept their policies running to a considerable extent in spite of political 'alarums and excursions'. 'Residual items' represent miscellaneous obligations of commercial banks and obligations of the Government of India and other quasi-governmental bodies on account of goods bought and other contractual obligations.

We shall now attempt an analysis, on exactly the same lines, of India's financial relations with the other group of countries—the United States, Canada, Japan and Australia. With the exception of Japan, in the case of this group also we notice the predominance of long-term capital items, although capital transactions in the government sector in relation to this group of countries do not seem to have been so important in 1948 as they have been in later years.

India's Long-Term Net Position

(Rs. lakhs)

CATEGORY I

Net Foreign Liabilities + Assets —	U.S.A.	Canada	Japan	Australia
Shares of Joint-stock Companies				
(1) Portfolio ...	— 23	+ 4	+17	—63
(2) Direct ...	+ 4,10	+2,60	—	—
Proprietary Interest in Partnerships				
(3) Portfolio ...	— 1	—	+ 1	+28
(4) Direct ...	—	—	+ 2	—
(5) Net Position of Branches of Foreign Firms and Companies ...	+12,81	+1,84	+ 5	—
(6) Securities ...	+ 40	— 5	—45	—75

The most significant form of investment which at once attracts our attention when we look at the table is 'direct investment' in which the United States of America and Canada are primarily interested. Leaving out Japan and Australia, which were not in a position to supply India with long-term capital in 1948, it is the United States and Canada that account for the bulk of the direct investment shown in the table. Direct investment of these two countries was in two forms: (*a*) shares of joint-stock companies and (*b*) net investment of branches of American and Canadian firms and companies.

It is clear that American and Canadian 'direct' investment in India in 1948 was limited mostly to the field of foreign exchange banking and insurance. Both 'portfolio' and 'direct' investments of the U.S.A. and Canada in other fields are indicated in the following table.

U.S.A. and Canadian Investment in India

(Rs. lakhs)

	U.S.A.			Canada		
	Portfolio	Direct	Total	Portfolio	Direct	Total
Manufacturing	20	4,73	4,93	52	1,32	1,84
Trading	34	4,84	5,18	1	1,30	1,31
Utilities	1	—	1	—	—	—
Transport	1	2	3	—	—	—
Mining	18	—	18	69	—	69
Miscellaneous	30	38	68	5	—	5

'Direct' investment of both the U.S.A. and Canada in these other fields is confined mostly to manufacturing and trading, and it appears that both countries have distributed their direct investment almost evenly between manufacturing and trading. American and Canadian investors have shown interest in mining in which investment so far has been 'portfolio' investment. American capital has also flowed into a number of miscellaneous fields of production in which both 'portfolio' and 'direct' investment have a fairly even share.

These figures are small, as compared with British investment in India. (Britain's direct investment in India in 1948 was of the order of Rs. 189,34 lakhs as compared with the U.S.A.'s Rs. 16,91 lakhs and Canada's Rs. 4,44 lakhs. Britain's portfolio investment in India in 1948 was of the order of Rs. 58,87 lakhs, as compared with the U.S.A.'s Rs. 8,33 lakhs and Canada's Rs. 1,55 lakhs). But there is no doubt that, among other things, the remarkable development of trade between India, on the one hand, and the U.S.A. and Canada, on the other hand, has stimulated investment of capital in India.

Long-Term Net Position

(Rs. lakhs)

CATEGORY II

	U.S.A.	Canada	Japan	Australia
Deposits ...	—	−5	+2,55	—
Loans and Advances ...	− 2	—	—	—
Insurance ...	− 51	−9	—	—
Immovable Property ...	− 8	—	− 29	—
Residual Items ...	+1,19	—	−1,39	—

Items under Category II are of trivial importance.

Short-Term Net Position

(Rs. lakhs)

	U.S.A.	Canada	Japan	Australia
Deposits ...	−9,72	−1,72	−4,98	− 10
Loans and Advances ...	− 57	—	—	—
Negotiable Instruments ...	− 61	—	− 8	− 4
Letters of Credit ...	+5,55	+ 18	+ 4	+ 23
Inter-Company Advances	− 1	—	—	—
Inter-Branch Balances ...	− 1	—	—	—
Insurance ...	—	—	—	—
Residual Items ...	+2,11	—	—	−1,18

Short-term capital movements reflect the financing of current movement of goods and services. On the whole, India's short-term assets exceeded her liabilities in relation to each of the four countries. The really important items in the case of this group of countries are deposits, loans and advances, negotiable instruments and letters of credit, rather than inter-company advances and inter-branch balances, which predominate in the case of financing of current transactions as between India and Pakistan, Ceylon, Burma, and Malaya.

India's Short-term Finance

(Rs. lakhs)

	U.S.A.	Canada	Japan	Australia
Deposits	24,16	1,84	5,00	20
Loans and Advances	2,45	—	—	—
Negotiable Instruments	85	2	8	4
Letters of Credit	6,49	20	12	28
Inter-Company Balances	1	—	—	—
Inter-Branch Balances	1	—	—	—

It is obvious that inter-company balances and inter-branch balances are practically non-existent as sources of finance. Even the U.S.A. has not approached anywhere near the position occupied by British companies in India, Pakistan, Ceylon, Burma, and Malaya from the point of view of the financial, and even operational, integration of allied companies or branches of the same company. The large magnitude of deposits held by the official sector is easily explained by the large scale of dollar imports on Government account

Our survey of the economic relations between India and countries of the Far Eastern and Pacific region cannot be complete if we did not refer to economic assistance which India has received from the advanced countries of this region. Implementation of

the plan is not conditioned by the amount of external assistance that may be forthcoming, although such assistance, if it is received in adequate measure, would relieve the severe strain on the economy of the country. The United States of America, Canada, Australia and New Zealand have contributed substantially to make up the total foreign economic assistance, already received, of the order of Rs. 231 crores as estimated early in 1954. Such assistance has been received on a bilateral basis and has taken two forms—(*a*) financial and (*b*) technical. With the U.S.A. the first bilateral agreement was on Point-Four Assistance, which was concluded by India on December 28, 1950. In addition, during 1951 India received from the U.S.A. a loan of $ 190 million for the purchase of 2 million tons of foodgrains from the latter. The loan carries interest at 2.5 per cent per annum and is repayable in semi-annual instalments over a period of 30 years commencing from June, 1957. Purchases under this loan were completed by the end of June, 1952 and helped India to tide over a difficult period of food shortage, stabilize the food situation and carry through her programme of disinflation in anticipation of ordered economic development under the Five-Year Plan. It should be pointed out that economic assistance received by India from the U.S.A. has not been merely on a governmental level. The Ford Foundation offered technical assistance under an agreement signed with the Government of India in January, 1952. Under the Colombo Plan India has also received technical and financial assistance from member-countries including Australia, Canada and New Zealand, the three countries which form part of the Far Eastern and Pacific region.

In fulfilment of India's obligation as a member-country of the Colombo Plan, she has provided technical assistance to some of the countries of South-East Asia. The contribution has been by way of supply of experts and training facilities for students of member-countries.

CHAPTER 16

PROSPECTS OF THE FUTURE

THE several chapters of this book have presented elements out of which one may form a coherent picture of India's economic relations with Far Eastern and Pacific countries at least in its broad outlines. In the course of our historical survey we analysed the contemporary situation in each country not only in the light of the past but also in the context of future possibilities. But events in this part of the world have been moving so fast that it is dangerous to prophesy the prospects of the future. Who knows that we are not witnessing the shifting of scenes in a phantasmagoria? Nevertheless, on a rational estimation of possibilities one may try to indicate broadly certain future trends by way of a summary and conclusion.

Naturally a good deal of what is going to happen in the Far Eastern and Pacific region depends on the shape of things to come in the monsoon lands of Asia which account for nearly half of mankind and which form the core of the region surveyed in this book. The traditional state of disintegration of South-East Asia is now clearly recognized as an archaism, if not a threat to world peace. India is not a 'peripheral' country in the geographical sense. But with its vast and diversified economic resources and a more balanced political and economic organisation, India is a little apart from South-East Asia, but not so apart as the 'peripheral' countries. It is this somewhat intermediate position of India which invests the re-orientation of India's economic relations with the nuclear countries of South-East Asia with a special significance. Nevertheless, like 'peripheral' countries India has the distinct role of adjusting her economic relations with these countries to the requirements of their economic stability and integration in the context of a new rational economic regime which they have to build up for sheer survival as autonomous countries.

It is almost impossible to anticipate that the new political regimes in South-East Asia would prefer to remain at the level of primitive self-sufficiency. The unexploited wealth, and particularly strategic raw materials, like tin, wolfram, and rubber, are

bound to attract the cupidity of advanced nations if they are left unexploited. Their exploitation is equally essential for the economic progress of underdeveloped countries for the preservation of their political independence and for the welfare of the world as a whole. The governments of these countries realize this simple fact. By means of economic regulation and pressure they have been trying to ensure that exploitation of local resources contributes to the maximum social advantage of the local inhabitants consistently with 'fair return' to foreign capital and enterprise. They have been showing preference for joint economic enterprise in which the government becomes the major partner with its stake in local resources held in trust for the poverty-stricken masses. Owing to lack of local capitalistic enterprise and capital formation, governments have also been resorting to economic planning for the purpose of development of capital resources and modern economic organisation. We have already explained in this connection the significance of state trading and state enterprise in the field of production in certain countries of this region. Thus to the extent that private enterprise is either absent or cannot grow, governments in the Far East are bound to develop a collectivist trend. The stronger the opposition that they face from vested interests, both internal and external, and the more violent the stresses and strains of the difficult economic transition in these countries, the more pronounced will be the trend towards collectivism.

It is this possibility which is at once the strength and weakness of South-East Asian economies. The element of strength arises from the cohesion of economic effort in disintegrated societies and the stronger bargaining power of inherently weak governments which are possible under economic planning. The element of weakness is the danger of totalitarianism. It is difficult to say whether the element of weakness will be overborne by the element of strength. But it is almost certain that South-East Asian countries will plan a type of industrial development answering their basic economic needs without going to extremes of primitive economic self-sufficiency, on the one hand, and the return of colonialism by the backdoor on the other.

This phase of industrialization seems to have already appeared in an incipient stage after the war. Lack of purchasing power, due to slow recovery of export trade, (which has increased the

severity of import restrictions) has compelled many of the countries of the Far East to fall back upon domestic manufactures in various fields. In addition, there is deliberate fostering of local manufactures as part of the programme of economic development. On the whole, the situation is such that imports of basic consumer goods are being steadily reduced to the minimum. It is certain that this trend will not only persist, but will be accelerated by means of tariff protection and other forms of direct State assistance.

This is bound to react adversely on India's foreign trade in certain important lines. Already India has permanently lost her large export market for handloom cloth (coloured and woven *longyis* and *sarongs* and other varieties) in Burma, Ceylon, and Pakistan. Similarly, commodities like cigarettes or rubber goods manufactured in India would find a steadily shrinking export market in South-East Asia. But, as we have shown, industrial development in underdeveloped countries opens up new lines of exports and imports and ultimately leads to an expansion and diversification of trade. Our analysis of the trends of India's trade with several countries has demonstrated that this is not surely a theoretical possibility. The character of India's exports to the Far Eastern countries has not been the same as it was before the war. Even after the war the variety and resourcefulness of supply of India's exports have ensured adaptation of exports to changing requirements in the markets of the neighbouring countries.

But there is one aspect of the development of processing industries in South-East Asia which is a matter of wider concern. Hitherto South-East Asia's vast supplies of primary agricultural raw materials have been handled by processing industries located mostly in Europe and the United States. Development of these processing industries at the sources of raw materials will no doubt ensure a better occupational balance and raise the standard of living of the masses of the population in South-East Asia. But this will mean gradual liquidation of assets in the established processing industries in other continents and, what is more important, it may be difficult to maintain the supply of manufactured exports, into the production of which processed raw materials enter, at steadily rising levels. Here we come across a conflict of economic interests which is likely to remain unresolved for some time to come.

The current rice deficits in South-East Asia have been a powerful

inflationary factor. Rice-exporting countries have been eager to exploit the seller's market through state-trading in rice. Abnormally high food prices encourage the trend towards self-sufficiency in food and in underpopulated areas of plantation agriculture and mining, tend to cause shortage of labour in non-agricultural occupations. Wages also tend to rise without there being concurrent increase of labour productivity, which makes for cost inflation. Obviously, there cannot be sound development of secondary production under these conditions. What is needed is proper allocation of resources between plantation agriculture and raising of food crops, and between primary production and manufacturing industry on the basis of regional planning. Without this kind of planning it is not possible to ensure a sufficient supply of rice for the rice-deficit areas, while at the same time maintaining the purchasing power of rice at a proper parity which would encourage rice production.

Apart from the basically competitive character of the colonial economies, a major cause which has hampered intra-regional trade in the past has been the pull exerted by the colonial powers upon the trade of this region, among other things, through their respective shipping lines. It is purely colonial considerations which have drawn the trade of the Philippines into the United States' shipping lines, the Netherlands Indies' trade into the Dutch shipping circuits, and the trade of the rest of South-East Asia into the British shipping system. The shipping systems of other Western countries, including France, have not been important and in any case less important than the Japanese shipping network in this region. But the geographical situation of South-East Asia is such that it stands between India and China, on the one hand, and between these countries and Europe, North America, and Oceania, on the other. Consequently international shipping routes and also air routes are bound to converge in South-East Asia.

Hitherto Singapore with its pivotal position as a strategic centre and its notable facilities as a port of call and free port has been the mainstay of the trade of this region. Exports and imports of this region moving in the course of both intra-regional and extra-regional trade have flowed through Singapore. Thus before the war nearly fifty per cent of Singapore's imports consisting largely of oil, tin and rubber, came from the Netherlands East Indies. Similarly rice from Burma and Thailand, cotton textiles, and

dried fish from India and minor Chinese food from China passed through Singapore for distribution among the mining and plantation workers. Singapore has been likewise a centre of *entrepôt* trade in manufactured products imported from Europe, North America, and Oceania. Singapore has also performed the well-known functions of a free port: grading, collecting and distribution of products; processing of certain raw materials like tin; and handling, forwarding, shipping and reshipping as well as financing of trade. The convergence of international shipping routes on Singapore has been the cause as well as the effect of the dominance of Singapore as a free port. Singapore's role in the trade of the Far East has been resumed after the war. During the post-war years the gross value of Singapore's foreign trade has been on the average $2000 million per annum, rubber and tin being the main export staples moving overseas and rice and cotton textiles being the main imports moving into this region in the course of both extra-regional and intra-regional trade. In 1950 the gross value of Singapore's foreign trade reached a total of nearly $7000 million.

But it is very probable that Singapore will step down from its traditional eminence. In the first place, Singapore's commercial organisation geared to an integrated structure of Western capitalistic enterprise to meet the requirements of colonial economic development, will find it difficult to adapt itself to a new economic set-up in South-East Asia in spite of the vast experience, flexibility, and resourcefulness of the business community settled in Singapore. In the second place, direct trade between the countries of South-East Asia will increase in volume and importance with the passage of time. Already, there are clear signs of the independent countries of this region trying to break through the financial and commercial grip of Singapore on their foreign trade. Lastly, Singapore's traditional link with the sterling area, so long as sterling remains multilaterally inconvertible, has been a barrier to trade; so is also the hangover of the pre-war Imperial Preference. But there are clear signs of these South-East Asian countries gradually overcoming this serious disability.

In some of the chapters of this book we discussed the part which American aid has played in the economic rehabilitation of some of the countries of the Far East. Although goods received from America have not always flowed through the channels of private

trade, yet American relief shipments and other forms of economic aid have activised a free market in dollars in so far as there has been a reverse movement of tropical raw materials to the United States directly, and not through the trade channels of the sterling area of which Singapore has been the main terminal. As we have seen, free markets in dollars have already developed in Bangkok and Hongkong. If Bangkok also develops into an important free market in dollars it is bound to attract a considerable volume of *entrepôt trade*. But all these developments will be conditioned by the attractiveness of the Far Eastern countries outside the sterling area as a field for private American investment and business enterprise.

Whatever may be the trade-constricting effects of the dependence of the Far Eastern countries on sterling clearing in the post-war years, British preferential tariff arrangements, a legacy of the past in India, Pakistan, Ceylon, Burma, Malaya, New Zealand and Australia, are bound to disappear in the long run. Imperial Preference as a legacy of the colonial regime is an irritant and stands in the way of harmonious economic relations between countries which were formerly part of the British Empire and those which belonged to the spheres of influence of other political regimes. Burma has been the first country to take action to end the preferential system in relation to India by giving notice to terminate the preferential tariff rates on Indian goods with effect from October 1, 1953. The obvious consequence of this will be that consumer goods which India has been exporting to Burma will rise in price and meet with some resistance in the Burmese market. But Thailand and Indonesia should no longer have any cause for complaint in respect of discriminatory treatment of Burmese goods in the Indian market.

Our brief survey of the prospects of the future may appear inadequate and disappointing; but the reader will appreciate that we are very much in the region of conjecture when we try to appraise the fluid situation in the Far Eastern and Pacific countries. Nevertheless, whatever happens in this part of the world, South-East Asia's raw materials, its large rice surplus and its vast market for low-income consumer goods, all of which it cannot produce itself, and for capital goods which must be imported from abroad, are bound to make it a vital centre of world trade.

In 1950 the total turnover of the trade of this region was of the

order of $15,000 million. Shipping and commercial services involved in such a large volume of trade must be considerable. It would be clearly wrong to assume that South-East Asia will always remain a region divided against itself, that rival colonialisms will merely make room for rival nationalisms and that instead of only colonial powers sharing the vast market of this region, countries of Europe, America and Oceania, together with India, China and Japan, will share this market on an equal footing. India has no interests in this region except those which are conceived in the best interests of the poverty-stricken disillusioned masses.

APPENDIX

Principal Exports of India to Straits Settlements

('000s of Rs.)

Commodity	Pre-war Average	1926-27	1933-34	1938-39	1950-51	1951-52	1952-53
Cotton, Twist & Yarn	2441	1129	383	2906	11904	1710	8061
Jute Manufactures	3440	9970	4170	2107	572	6656	5111
Tobacco	1312	1640	426	222	1436	3976	568

Principal Imports from Straits Settlements into India

('000s of Rs.)

Commodity	Pre-war Average	1926-27	1933-34	1938-39	1950-51	1951-52	1952-53
Tin	4454	9325	5286	6284	32567	48281	24701
Oils (Mineral)	1552	3424	54	2481	27345	39865	28472
Oils (Vegetable)	—	—	1469	4410	18942	21970	12806
Betelnuts	8573	21430	8715	18230	27391	31135	23463
Starch & Farina	—	—	1128	1502	20250	17473	14

Principal Exports of India to Japan

('000s of Rs.)

Commodity	1948-49	1949-50	1950-51	1951-52	1952-53
Coal	692	199	3775	26266	21764
Lac	119	—	1387	529	2539
Metals, Ores & Minerals	3585	5712	12040	22506	13192
Mica	1273	743	969	3152	3230
Castor Seeds	—	2458	11969	707	—
Linseed	—	1614	80991	3335	—
Raw Cotton	32649	36765	3098	55337	111420
Cotton Waste	1093	—	10053	2865	17543
Raw Hides & Skins	—	150	604	1115	—

Principal Imports from Japan into India

('000s of Rs.)

Commodity	1948-49	1949-50	1950-51	1951-52	1952-53
Drugs & Medicines	453	1255	15827	44663	9668
Hardware	465	3635	5329	5435	—
Machinery & Millwork	9797	59795	14490	41287	—
Metals	1250	7792	14731	7329	13034
Artificial Silk	26079	47756	13366	50024	18288
Umbrellas & Fittings	702	2145	421	1537	507

Principal Exports of India to Burma

(In lakhs of Rs.)

Commodity	Average 1909-10 to 1913-14	Average 1914-15 to 1918-19	Average 1919-20 to 1923-24	1950-51	1951-52	1952-53
Coal	51	65	109	50	45	90
Cotton, Twist & Yarn	56	97	235	73	20	37
Cotton, Coloured (printed or dyed)	27	60	95	484	119	340
Jute Bags	119	166	188	221	880	266

Principal Imports from Burma into India

(In lakhs of Rs.)

Commodity	Average 1909-10 to 1913-14	Average 1914-15 to 1918-19	Average 1919-20 to 1923-24	1950-51	1951-52	1952-53
Rice not in the husk	154	112	86	1533	1720	2280
Pulses	17	19	64	—	1	3
Teakwood	117	182	239	195	400	145

Principal Exports of India to Ceylon

('000s of Rs.)

Commodity	Average 1909-12 to 1913-14	1942-43	1943-44	1944-45	1950-51	1951-52	1952-53
Cloth Manufactures	3603	31229	50698	81284	141286	65199	81444
Fish (not canned)	2439	7274	15018	21271	18271	21266	22068
Fruits & Vegetables	1355	7729	7677	12921	6827	2457	4987

Principal Imports from Ceylon into India

('000s of Rs.)

Commodity	Average 1909-12 to 1913-14	1942-43	1943-44	1944-45	1950-51	1951-52	1952-53
Raw Hides & Skins	343	637	402	131	612	653	446
Gunny Bags	762	227	526	181	836	1131	69
Oils	45	4300	9515	7294	10630	23862	12970
Seeds	91	23384	11957	14433	11378	10027	16111
Spices	2991	6246	6847	8481	4558	8167	4585

Principal Exports of India to China

(In Rs.)

Commodity	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Chemicals and Chemical Preparations	663	25	27	42	—	—	—
Lac	669	571	615	50	—	—	—
Oils	314	155	58	28	—	—	—
Cotton, Waste	212	—	1529	1394	—	—	—
Cotton, Raw	86844	81025	28392	1515	—	—	—
Cotton Manufactures	872	265	—	4263	—	—	—
Jute Manufactures	17032	19997	22484	14748	32034	52941	2949
Tobacco	271	800	406	982	—	—	—

Principal Imports from China into India

('000s of Rs.)

Commodity	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Instruments, Apparatus and Appliances	964	641	740	1665	—	—	—
Machinery & Millwork	900	71	179	102	—	—	—
Oils	363	512	225	127	—	—	—
Glass & Glassware	18	335	239	111	—	—	—
Hardware	3068	1120	569	297	—	—	—
Raw Silk & Cocoons	16511	4730	1226	452	4508	302	83
Silk Manufactures including Yarn	12876	12495	4649	981	—	—	—
Woollen Manufactures	—	0.045	42	279	—	—	—
Artificial Silk	2995	1423	536	113	—	—	—

Principal Exports of India to the Philippines

('000s of Rs.)

Commodity	1905-06	1909-10	1920-21	1931-32	1938-39	1950-51	1951-52	1952-53
Cotton, Twist & Yarn	135	18	129	—	572	—	—	—
Gunny Bags	158	127	1759	1018	737	2773	3751	5468
Gunny Cloth	—	117	444	2460	2529	3950	12487	10062
Shellac	4.14	3.78	438	48	44	—	—	—

Principal Imports from the Philippines into India

('000s of Rs.)

Commodity	1905-06	1909-10	1920-21	1931-32	1938-39	1950-51	1951-52	1952-53
Tobacco	10	28	180	204	33	—	—	—
Raw Hemp	39	229	854	180	320	1731	2529	1608
Cordage and Rope of Vegetable fibre	5.3	14	33	116	127	—	—	—

PRINCIPAL EXPORTS OF INDIA TO NEW ZEALAND

('000s of Rs.)

Commodity	1940-41	1943-44	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Kapok	—	202	1447	1096	390	4584	7686	5569
Oils, Vegetable	81	311	1161	323	441	723	4000	1144
Seeds	5.6	288	175	516	2692	1277	9460	—
Black Tea	147	1317	3303	2570	2201	5225	3057	273
Cotton Waste	56	164	485	497	891	—	—	—
Piecegoods	558	2548	2170	2373	7418	13878	7710	4102
Jute Manufactures	10865	10572	22205	15967	14875	14214	50527	16160

PRINCIPAL IMPORTS FROM NEW ZEALAND INTO INDIA

('000s of Rs.)

Commodity	1940-41	1943-44	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Provisions	453	72	2065	4594	8941	—	—	—
Tallow & Stearine	830	168	—	1692	—	—	—	—
Raw Wool	10482	2501	1239	2422	4951	8519	5358	2604

PRINCIPAL EXPORTS OF INDIA TO AUSTRALIA

(In lakhs of Rs.)

Commodity	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Jute Manufactures	1403	1320	1456	1351	3114	1088
Tea	258	113	281	321	133	196
Cotton Manufactures	211	202	364	576	387	79
Oils	120	93	63	99	323	73
Seeds (Linseed)	80	96	122	133	18	15
Raw Hides	36	42	34	47	58	—

PRINCIPAL IMPORTS FROM AUSTRALIA INTO INDIA

(In lakhs of Rs.)

Commodity	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53
Grain, Pulses & Flour	383	2481	4151	2694	902	553
Provisions	208	205	305	183	363	166
Raw Wool	116	133	74	90	193	20
Metals	131	43	69	215	95	56

Principal Exports of India to Pakistan

(In crores of Rs.)

Commodity	July 1948-June 1949	July 1949-June 1950	1950-51	1951-52	1952-53
Cloth Manufactures	17.45	2.96	4.7	3.3	4.1
Jute Manufactures	6.85	2.53	2.6	4.0	2.3
Coal	6.53	4.03	—	.6	.8
Vegetable Oil	6.85	2.28	.03	.04	.02
Tobacco	4.86	5.88	2.2	1.4	.6
Silk Manufactures	4.74	0.79	.1	.01	.03

Principal Imports from Pakistan into India

(In crores of Rs.)

Commodity	July 1948-June 1949	July 1949-June 1950	1950-51	1951-52	1952-53
Jute, Raw	80.22	29.02	.07	.09	.07
Cotton, Raw	17.33	2.30	.3	.07	.0001

Principal Exports of India to Canada

(In lakhs of Rs.)

Commodity	1949-50	1950-51	1951-52	1952-53
Fruits & Vegetables	17	19	28	51
Groundnut Oil	—	71	104	—
Groundnut Seed	54	84	82	95
Pepper	70	79	86	76
Tea	470	429	431	425
Jute & Gunny Cloth	361	375	658	441
Wool Carpets & Rugs	41	34	67	35

Principal Imports from Canada into India

(In lakhs of Rs.)

Commodity	1949-50	1950-51	1951-52	1952-53
Wheat	903	710	1051	2272
Railway Locomotive Engines and Tenders and Parts	496	512	3	.2
Paper mill machinery	—	53	26	4
Aluminium unwrought	—	48	13	1
Copper unwrought	85	147	82	91
Rails, Chains and Fishplates including those for Railways	104	47	.4	.001
Printing Paper	72	62	120	104

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